### Solution 1

**Eko State Government**

Statement of financial performance for the year ended December 31, 2018

<table>
<thead>
<tr>
<th>Description</th>
<th>Naira Million</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
</tr>
<tr>
<td>Share of federation account allocation</td>
<td>324,000</td>
</tr>
<tr>
<td>Value added tax allocation</td>
<td>234,000</td>
</tr>
<tr>
<td><strong>Tax revenue</strong></td>
<td></td>
</tr>
<tr>
<td>- Personal income tax</td>
<td>185,000</td>
</tr>
<tr>
<td><strong>Non-tax revenue</strong></td>
<td></td>
</tr>
<tr>
<td>- Fees</td>
<td>30,000</td>
</tr>
<tr>
<td>- Fines</td>
<td>32,000</td>
</tr>
<tr>
<td>- Penalty</td>
<td>27,000</td>
</tr>
<tr>
<td>Investment income</td>
<td>12,000</td>
</tr>
<tr>
<td>Aids and grants</td>
<td>61,300</td>
</tr>
<tr>
<td>Surplus on revaluation of building</td>
<td>40,500</td>
</tr>
<tr>
<td>Surplus on swapped equipment</td>
<td>700</td>
</tr>
<tr>
<td>Profit on inv. property</td>
<td>1,500</td>
</tr>
<tr>
<td>Capital grant</td>
<td>150,000</td>
</tr>
<tr>
<td><strong>Total revenue</strong></td>
<td>1,098,000</td>
</tr>
</tbody>
</table>

**Expenditure:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Naira Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and wages</td>
<td>711,500</td>
</tr>
<tr>
<td>Transport and travelling</td>
<td>1,900</td>
</tr>
<tr>
<td>Hotel accommodation</td>
<td>2,600</td>
</tr>
<tr>
<td>Office consumables</td>
<td>600</td>
</tr>
<tr>
<td>Rent expenses</td>
<td>1,200</td>
</tr>
<tr>
<td>General repairs and maintenance</td>
<td>820</td>
</tr>
<tr>
<td>Consultancy</td>
<td>1,850</td>
</tr>
</tbody>
</table>
Utilities 78
Other overheads 2,100
Finance charge- insurance 885
Miscellaneous expenses 450

**Depreciation:**

- Building -
- Motor vehicle 22,000
- Plant and machinery 6,000
- Equipment 14,880
- Furniture 12,030
- Investment property -
- Amortisation- intangibles 7,200

Additional impairment-long term receivable 3,000
Loan interest 3,000
Contingent liabilities 50
Loss on scrapped plant and machinery 1,600

**Total expenditure** 793,743
Net surplus for the year 304,257
Deficit b/f -167,300
Surplus c/f 136,957

---

**Eko State Government**

**Statement of financial position as at December 31, 2018**

<table>
<thead>
<tr>
<th>Non- current assets</th>
<th>Cost/ Valuation</th>
<th>Accum. Dep/Amort</th>
<th>Carrying value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N' million</td>
<td>N' million</td>
<td>N' million</td>
</tr>
<tr>
<td>Buildings</td>
<td>240,000</td>
<td>-</td>
<td>240,000</td>
</tr>
<tr>
<td>Motor vehicle</td>
<td>110,000</td>
<td>56,000</td>
<td>54,000</td>
</tr>
<tr>
<td>Furniture</td>
<td>120,300</td>
<td>48,030</td>
<td>72,270</td>
</tr>
<tr>
<td>Equipment</td>
<td>99,200</td>
<td>40,880</td>
<td>58,320</td>
</tr>
<tr>
<td>Plant and machinery</td>
<td>40,000</td>
<td>18,100</td>
<td>21,900</td>
</tr>
<tr>
<td>Category</td>
<td>Subcategory</td>
<td>Domestic</td>
<td>Foreign</td>
</tr>
<tr>
<td>----------------------------------------</td>
<td>------------------------------</td>
<td>----------</td>
<td>---------</td>
</tr>
<tr>
<td>Investment property</td>
<td></td>
<td>40,000</td>
<td>-</td>
</tr>
<tr>
<td>Intangible assets</td>
<td></td>
<td>36,000</td>
<td>9,200</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td></td>
<td><strong>685,500</strong></td>
<td><strong>172,210</strong></td>
</tr>
</tbody>
</table>

**Current assets**

<table>
<thead>
<tr>
<th>Subcategory</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Long term receivables</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office consumables</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and its equivalents</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment: treasury bills</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>220,650</strong></td>
</tr>
</tbody>
</table>

**Total assets**

|                          |                              |          |         | **733,940**             |

**Non-current liabilities**

<table>
<thead>
<tr>
<th>Subcategory</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Long term borrowing: domestic</td>
<td></td>
<td>108,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>foreign</td>
<td>80,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total non-current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>188,000</strong></td>
</tr>
</tbody>
</table>

**Current liabilities:**

<table>
<thead>
<tr>
<th>Subcategory</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and wages</td>
<td></td>
<td>6,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consultancy</td>
<td></td>
<td>150</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utility</td>
<td></td>
<td>28</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repairs and maintenance</td>
<td></td>
<td>20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance</td>
<td></td>
<td>235</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contingent liability</td>
<td></td>
<td>50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payable from exchange transactions</td>
<td></td>
<td>2000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>8,983</strong></td>
</tr>
</tbody>
</table>

**Total liabilities**

|                          |                              |          |         | **(196,983)**          |

**Net assets**

|                          |                              |          |         | **536,957**            |

**Net assets/equity**

<table>
<thead>
<tr>
<th>Subcategory</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserves</td>
<td></td>
<td>400,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net surplus</td>
<td></td>
<td>136,957</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total net assets/equity</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>536,957</strong></td>
</tr>
</tbody>
</table>
## Workings

### Property, plant and equipment

<table>
<thead>
<tr>
<th>S/N</th>
<th>Details</th>
<th>Building</th>
<th>Inv. property</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>N' million</td>
<td>N' million</td>
</tr>
<tr>
<td>i.</td>
<td>Balance b/f</td>
<td>200,000</td>
<td>40,000</td>
</tr>
<tr>
<td></td>
<td>Cash book</td>
<td>23,000</td>
<td>00</td>
</tr>
<tr>
<td></td>
<td>Transfers from building</td>
<td>(3,500)</td>
<td>3,500</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>219,500</strong></td>
<td><strong>43,500</strong></td>
</tr>
</tbody>
</table>

**Revaluation**

- Cost at the end of the year: 219,500 N' million
- Accumulated depreciation b/f: (20,000) N' million
- **Revalued amount**: 240,000 N' million
- **Profit on revaluation**: 40,500 N' million

### Motor vehicle

<table>
<thead>
<tr>
<th></th>
<th>Motor vehicle</th>
<th>Furniture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance b/f</td>
<td>85,000</td>
<td>120,000</td>
</tr>
<tr>
<td>Cash book / issues</td>
<td>25,000</td>
<td>300</td>
</tr>
<tr>
<td><strong>Total c/f</strong></td>
<td><strong>110,000</strong></td>
<td><strong>120,300</strong></td>
</tr>
<tr>
<td><strong>Depreciation rate</strong></td>
<td>20%</td>
<td>10%</td>
</tr>
<tr>
<td>Accumulated depreciation b/f</td>
<td>34,000</td>
<td>36,000</td>
</tr>
<tr>
<td>Depreciation charges for the year</td>
<td>22,000</td>
<td>12,030</td>
</tr>
<tr>
<td><strong>Accumulated depreciation c/f</strong></td>
<td><strong>56,000</strong></td>
<td><strong>48,030</strong></td>
</tr>
</tbody>
</table>

### Equipment

<table>
<thead>
<tr>
<th></th>
<th>Equipment</th>
<th>Plant and machinery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bal. b/f</td>
<td>90,000</td>
<td>30,000</td>
</tr>
<tr>
<td>Cash book</td>
<td>7,000</td>
<td>15,000</td>
</tr>
<tr>
<td>Old value swap/ scrapped plant and machinery</td>
<td>(1,800)</td>
<td>(5000)</td>
</tr>
<tr>
<td>New equipment</td>
<td>1,500</td>
<td>00</td>
</tr>
<tr>
<td>Donation</td>
<td>2,500</td>
<td>00</td>
</tr>
<tr>
<td><strong>Bal C/F</strong></td>
<td><strong>99,200</strong></td>
<td><strong>40,000</strong></td>
</tr>
</tbody>
</table>
Profit on swapped equipment/loss on plant and machinery

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Dr.</th>
<th>Cr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>New equipment/Cash book (plant &amp; machinery)</td>
<td>1,500</td>
<td>1,500</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td></td>
<td>1,900</td>
</tr>
<tr>
<td>Old equipment</td>
<td>(800)</td>
<td></td>
</tr>
<tr>
<td>Cost of scrapped plant and machinery</td>
<td>00</td>
<td>(5000)</td>
</tr>
<tr>
<td>Profit on swapped equipment/loss on plant and machinery</td>
<td>700</td>
<td>(1,600)</td>
</tr>
</tbody>
</table>

Depreciation rate

<table>
<thead>
<tr>
<th>Depreciation rate</th>
<th>15%</th>
<th>15%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accumulated depreciation B/F.</td>
<td>27,000</td>
<td>14,000</td>
</tr>
<tr>
<td>Depreciation of swapped equipment</td>
<td>(1,000)</td>
<td></td>
</tr>
<tr>
<td>Depreciation charges</td>
<td>14,880</td>
<td>6,000</td>
</tr>
<tr>
<td>Depreciation on scrapped plant and machinery</td>
<td>00</td>
<td>(1900)</td>
</tr>
<tr>
<td>Accumulated depreciation c/f</td>
<td>40,880</td>
<td>18,100</td>
</tr>
</tbody>
</table>

iv. Inventories-office consumables

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Dr.</th>
<th>Cr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bal b/f</td>
<td></td>
<td>400</td>
</tr>
<tr>
<td>Cash book</td>
<td>750</td>
<td></td>
</tr>
<tr>
<td>Bal c/f</td>
<td>(550)</td>
<td></td>
</tr>
<tr>
<td>Office consumables expenses</td>
<td>600</td>
<td></td>
</tr>
</tbody>
</table>

Consolidated cash book

<table>
<thead>
<tr>
<th>Date</th>
<th>Particulars</th>
<th>Dr.</th>
<th>Cr.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N</td>
<td>N</td>
<td></td>
</tr>
<tr>
<td>01/01/18</td>
<td>Bal b/f</td>
<td>1,600</td>
<td></td>
</tr>
<tr>
<td>Receipts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share of federation account allocation</td>
<td>324,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value added tax allocation</td>
<td>234,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal income tax</td>
<td>185,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fees</td>
<td>35,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fines</td>
<td>36,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Penalty</td>
<td>33,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment income</td>
<td>12,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-------------------</td>
<td>--------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aids and grants</td>
<td>51,800</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scrapped plant and machinery</td>
<td>1,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total receipts</strong></td>
<td><strong>913,900</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Payment**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and wages</td>
<td>750,000</td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>25,000</td>
</tr>
<tr>
<td>Building</td>
<td>23,000</td>
</tr>
<tr>
<td>Plant and machinery</td>
<td>15,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>7,000</td>
</tr>
<tr>
<td>Outstanding liabilities payable from exchange transactions</td>
<td>3,500</td>
</tr>
<tr>
<td>Loan repayment- domestic &amp; interest</td>
<td>13,000</td>
</tr>
<tr>
<td>Loan repayment - foreign &amp; Interest</td>
<td>32,000</td>
</tr>
<tr>
<td>Transport &amp; travelling</td>
<td>1,900</td>
</tr>
<tr>
<td>Hotel accommodation</td>
<td>2,600</td>
</tr>
<tr>
<td>Office consumables</td>
<td>750</td>
</tr>
<tr>
<td>Rent expenses</td>
<td>1,200</td>
</tr>
<tr>
<td>General repairs and maintenance</td>
<td>800</td>
</tr>
<tr>
<td>Consultancy</td>
<td>6,700</td>
</tr>
<tr>
<td>Utilities</td>
<td>3,050</td>
</tr>
<tr>
<td>Other overheads</td>
<td>2,100</td>
</tr>
<tr>
<td>Finance charge- insurance</td>
<td>350</td>
</tr>
<tr>
<td>Miscellaneous expenses</td>
<td>450</td>
</tr>
<tr>
<td><strong>Total payments</strong></td>
<td><strong>888,400</strong></td>
</tr>
<tr>
<td><strong>Bal. c/f</strong></td>
<td><strong>25,500</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>913,900</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Analysis</th>
<th>Consultancy</th>
<th>Utility</th>
<th>Rep and maint.</th>
<th>Insurance</th>
<th>Sal. and wages</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N' million</td>
<td>N' million</td>
<td>N' million</td>
<td>N' million</td>
<td>N' million</td>
</tr>
<tr>
<td>Payments During the year</td>
<td>6,700</td>
<td>3,050</td>
<td>800</td>
<td>350</td>
<td>750,000</td>
</tr>
</tbody>
</table>
Accrued B/F                  -5,000 -3,000 - 45,000
Prepayment b/f               -       -       -       300
                               1,700  50  800  650  705,000
Accrued c/f                  150  28  20  235  6,500
Amount charged for the year  1,850  78  820  885  711,500

<table>
<thead>
<tr>
<th>Analysis of receivables</th>
<th>Fine</th>
<th>Penalty</th>
<th>Fees</th>
<th>Aid &amp; grant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receipts during the year</td>
<td>36,000</td>
<td>33,000</td>
<td>35,000</td>
<td>51,800</td>
</tr>
<tr>
<td>Equipment</td>
<td></td>
<td></td>
<td></td>
<td>2,500</td>
</tr>
<tr>
<td>Differed income</td>
<td></td>
<td></td>
<td></td>
<td>7,000</td>
</tr>
<tr>
<td></td>
<td>36,000</td>
<td>33,000</td>
<td>35,000</td>
<td>61,300</td>
</tr>
<tr>
<td>Accrued income b/f</td>
<td>-4,000</td>
<td>-6,000</td>
<td>-5,000</td>
<td>-</td>
</tr>
<tr>
<td>Amount recognised as income</td>
<td>32,000</td>
<td>27,000</td>
<td>30,000</td>
<td>61,300</td>
</tr>
</tbody>
</table>

Marking guide

<table>
<thead>
<tr>
<th>i. Statement of financial performance</th>
<th>Marks</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heading</td>
<td>½</td>
<td></td>
</tr>
<tr>
<td>Calculation of total revenue (13 ticks @ ¼ mark each)</td>
<td>3¼</td>
<td></td>
</tr>
<tr>
<td>Calculation of total revenue (13 ticks @ ¼ mark each)</td>
<td>5 ¼</td>
<td></td>
</tr>
<tr>
<td>Calculation of net surplus for the year (1 tick @ ¼ mark each)</td>
<td>¼</td>
<td></td>
</tr>
<tr>
<td>Calculation of surplus carried forward (3 ticks @ ¼ mark each)</td>
<td>¾</td>
<td>10</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ii. Statement of financial position</th>
<th>Marks</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heading</td>
<td>½</td>
<td></td>
</tr>
<tr>
<td>Calculation of total non-current assets (23 ticks @ ¼ mark each)</td>
<td>5 ¾</td>
<td></td>
</tr>
<tr>
<td>Calculation of total current assets (4 ticks @ ¼ mark each)</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Calculation of total assets (2 ticks @ ¼ mark each)</td>
<td>½</td>
<td></td>
</tr>
<tr>
<td>Calculation of total non-current liabilities (4 ticks @ ¼ mark each)</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Calculation of total current liabilities (9 ticks @ ¼ mark each)</td>
<td>2½</td>
<td></td>
</tr>
</tbody>
</table>
Calculation of total liabilities (2 ticks @ ¼ mark each) ½
Calculation of total net assets (2 ticks @ ¼ mark each) ½
Calculation of total net assets/equity (4 ticks @ ¼ mark each) 1 13

iii. Workings

Property, plant and equipment

Calculation of cost at the end of the year on buildings and investment property (2 ticks @ ½ mark each) ½
Calculation of accumulated depreciation transferred to revaluation account on buildings and investment property (2 ticks @ ¼ mark each) ½
Calculation of revaluation surplus for buildings and investment property (2 ticks @ ¾ mark each) 1½
Calculation of cost at the end of the year for motor vehicle and furniture carried forward (2 ticks @ ¼ mark each) ½
Calculation of depreciation charges for the year on motor vehicle and furniture carried forward (2 ticks @ ¼ mark each) ½
Calculation of accumulated depreciation on motor vehicle and furniture carried forward (2 ticks @ ¼ mark each) ½
Calculation of cost at the end of the year on equipment and plant & machinery carried forward (2 ticks @ ¼ mark each) ½
Calculation of depreciation charges for the year on equipment and plant & machinery (2 ticks @ ¼ mark each) ½
Calculation of accumulated depreciation on equipment and plant & machinery on swapped and scrapped respectively (2 ticks @ ¼ mark each) ½
Calculation of profit/(loss) on equipment and plant & machinery on swapped and scrapped respectively (2 ticks @ 1 mark each) 1½

Expenses and revenue

Calculation of expenses to be charged during the year on consultancy; utility; repairs & maintenance; insurance; and salaries & wages. (5 ticks @ 1 mark each) 1 ¼
Calculation of income to be recognised during the year on fine; penalty; fees; and aids & grants. (4 ticks @ ¼ mark each) 1

Adjusted cash book

Calculation of total receipts (10 ticks @ ¼ mark each) 2½
Calculation of total payments (18 ticks @ ¼ mark each) 4½
Calculation of closing balance (1 ticks @ ¾ mark each) ¾ 17

Total 40

SOLUTION 2

a. Contents of the medium–term expenditure framework (MTEF) are as follows:

i. A macro–economic framework setting out the three financial years, the underlying assumptions and an evaluation and analysis of the macro – economic.

ii. An expenditure and revenue framework which will set out:
- Estimates of aggregate revenue for the federation for each financial year, based on the pre-determined commodity reference price adopted and tax revenue projections;
- Aggregate expenditure for each of the next three financial years;
- Minimum capital expenditure projection for the federation for each of the next three financial years;
- Aggregate tax expenditure projection for the federation for each of the next three financial years.

iii. A consolidated debt statement indicating and describing the fiscal significance of the debt liability and measures to reduce the liability.

iv. A statement of the nature and fiscal significance of contingent liabilities and quasi-fiscal activities and measures to offset the crystallization of such liabilities.

v. Fiscal strategy document setting out:
   - Federal Government’s medium-term financial objectives.
   - The policies of the Federal Government for the medium term relating to taxation, recurrent expenditure, borrowings, lending and investment and other liabilities;
   - The strategies, economic, social and developmental priorities of government for the next three financial years;
   - An explanation of the financial objectives, strategic, economic, social and developmental priorities and fiscal measures.

b. A public good is a product that one individual can consume without reducing its availability to another individual, and from which no one is excluded. A public good has two characteristics:

- **Non-rivalry:** This means that when a good is consumed, it doesn’t reduce the amount available for others, for example, benefiting from a street light doesn’t reduce the light available for others but eating an apple would; and

- **Non-excludability:** This occurs when it is not possible to provide a good without it being possible for others to enjoy. For example, if you erect a dam to stop flooding – you protect everyone in the area (whether they contributed to flooding defences or not).

The problems faced by the government when trying to provide the “right” amount of a “public good” are as follows:

i. **Corruption:** An important underlining factor affecting the production and distribution of services in the developing nations is corruption. Most importantly, the issue of corruption among local authorities and their cronies has often resulted in tribal conflicts and mistrust and has negatively affected the achievement of social services;
ii. **Debt:** It is argued that developing countries are trapped in interest repayments to international financial institutions and the IMF. For instance, IMF conditionalities of reforms and trade liberalisation in developing nations, countries, for instance, Kenya and Zambia are incapable of providing essential services to their citizens, largely due to high interest repayments over the years;

iii. Furthermore, the concept of decentralisation of power and resources has also been a source of governments' lack of incentives to provide public goods in developing countries. Decentralisation in countries where technological, communication and information systems are effective, such as in the developed world, devolving power to lower levels will improve the provision of public goods and services for the well-being of citizens.

iv. Lack of transparent information and inadequate civil participation in development and local policy setting pose serious challenges in developing nations.

Marking guide

<table>
<thead>
<tr>
<th></th>
<th>Marks</th>
<th>Marks</th>
</tr>
</thead>
</table>
a. Explanation of any five contents of medium-term expenditure framework (MTEF) @ 2 marks each | 10 |
b. Definition of "public goods" | 2 |
|   | Stating the two characteristics of "public goods" @ 1 mark each | 2 |
|   | Identification and explanation of any three problems faced by the government when trying to provide the "right" amount of a "public goods" @ 2 marks each | 6 |

Total | 20 |

**SOLUTION 3**

a. i. Maximum lump sum  
= 25% of ₦28,500,500  
= ₦7,125,125

Conditions to be fulfilled before such withdrawal is made in line with the provisions of Pensions Reform Act 2014 Part III Section 7(2) are:

- Provided that such withdrawal shall only be made after four months of retirement or cessation of employment;
- The employee does not secure another employment; and
• That the emolument left after the lump sum withdrawal shall be sufficient to procure a programmed fund withdrawals or annuity for life in accordance with extant guidelines issued by the Commission.

ii. Two options Mallam Aboki could use to subsequently access the balance in his retirement savings account are as follows:
   • Procure a programmed fund withdrawals; or
   • Procure annuity for life from a life insurance company licensed by the National Insurance Commission with monthly or quarterly payments.

b. An externality is a cost or benefit of an economic activity experienced by an unrelated third party. The external cost or benefit is not reflected in the final cost or benefit of a good or service. Therefore, economists generally view externalities as serious problem that make markets inefficient, leading to market failures. Externalities occur because economic agents have effects on third parties that are not part of market transactions. Examples include but not limited to factories emitting smoke, jet planes waking up people, loudspeakers generating noise, etc. These activities have a direct effect on the well being of others that are outside direct market channels.

**Positive Externalities**- These are gains or benefits realised from the activities of another economic unit without the externality generator being compensated. For instance, construction of an expressway will create new market to the villages around the corridor. Positive externalities will lead to increase in production and consumption of goods and services.

**Examples of positive externalities include but not limited to the following:**
   i. Infrastructure development: Building a subway station in a remote neighborhood may benefit real estate agents who manage the properties in the area. Real estate prices would likely increase due to better accessibility, and the agents would be able to earn higher commissions; and
   ii. R&D activities: A company that discovers a new technology as a result of the research and development (R&D) activities creates benefits that help the society as a whole.

**Negative Externalities**- These refer to the losses suffered by an economic entity because of the activities of another economic unit. For example, an airplane flying or train moving will evoke a great deal of noise that will disturb the peace of the environment.

**Examples of negative externalities include but not limited to the following:**
   i. Air pollution: A factory burns fossil fuels to produce goods. The people living in the neighbourhood and the workers in the factory suffer from the deteriorating air quality;
   ii. Water pollution: A tanker spills oil, destroying the wildlife in the sea and affecting the people living in coastal areas; and
iii. Noise pollution: People living near a large airport suffer from noise levels.

Marking guide

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a.i. Calculation of the maximum lump sum Mallam Aboki can withdraw from his `RSA balance</td>
<td>Marks</td>
<td>1½</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ii. Stating the three conditions to be fulfilled before such a withdrawal is made in line with the provisions of Pensions Reform Act 2014 (Part III Section 7(2)) @ 1½ marks each</td>
<td>Marks</td>
<td>4½</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ii. Explanations of the two options Mallam Aboki could use to subsequently access the balance in his retirement savings account according to the provisions of the Act. @ 2 marks each</td>
<td>Marks</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Definitions of externalities</td>
<td>Marks</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Explanations of positive and negative externalities @ 1 mark each</td>
<td>Marks</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Giving two (2) examples each of ‘positive’ and ‘negative’ externalities. @ 1½ marks each</td>
<td>Marks</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>Marks</td>
<td>20</td>
</tr>
</tbody>
</table>

SOLUTION 4

a.i. Definitions

The national chart of accounts (NCOA) may be defined as a complete list of budget and accounting items where each item is uniquely represented by a code and grouped into tables of related data for the purposes of tracking, managing and reporting budgetary, and accounting items in an orderly, efficient and transparent manner.

It is also a created list of codes, which can be represented by numeric, alphabetic, or alphanumeric symbols. This is to enable the entity to define each item of revenue, expenditure, asset, liability, location and other parameters in order to give interested parties a better understanding of the entity.

Objectives

These include the following but not limited to:

- To give ample opportunity for comparability;
- To unify and harmonise coding, budgeting, accounting and reporting system;
- To bring about global interpretation of Nigeria GPFS;
- To ensure consistent national financial reporting;
- To enhance improvement in transparency and accountability; and
- To facilitate ease of computerization of accounting system.

ii. The **five** steps for budgeting, using national chart of accounts (NCOA) are as follows:

- Identify the government institution (cost and revenue centre) from the hierarchy of administrative list and codes provided in the chart of accounts;
- Identify the economic items that would be executed during the fiscal year;
- Identify the functions intended to be performed by government institutions (revenue and cost centre);
- Identify the programmes intended to be carried out by the government institution;
- Determine the sources of financing the budgeted amount for each budget line; and
- Identify the planned location for the economic transactions or government institution

b. In line with the federal structure of the Nigerian State, tax administration in the country is multi-tiered:

i. The Federal Inland Revenue Service (FIRS) is the only Federal Government institution saddled with the primary responsibility of collection and payment of Federal Government taxes across Nigeria. FIRS is responsible for assessing, collecting and accounting for tax and other revenues accruing to the Federal Government;

ii. The Nigerian Customs Services (NCS) is saddled with the responsibilities of revenue collection, accounting for same and anti-smuggling activities;

iii. The States Internal Revenue Service are responsible for assessing, collecting and accounting for tax and other revenues accruing to the state governments; and

iv. Local Government Revenue Authority performs the functions of assessing, collecting and accounting for tax and other revenues accruing to the local government.

**Marking guide**

| a. Explanation of the term called national chart of accounts (NCOA) | 2 |
SOLUTION 5

a. Obudu State Ministry of Commerce

Overhead cost budget for year 2019

<table>
<thead>
<tr>
<th>Sub-Head</th>
<th>Description</th>
<th>Notes</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>₦’M</strong></td>
</tr>
<tr>
<td>02</td>
<td>Travel and tours</td>
<td>2</td>
<td>382.80</td>
</tr>
<tr>
<td>03</td>
<td>Utility services</td>
<td>3</td>
<td>211.20</td>
</tr>
<tr>
<td>04</td>
<td>Telephone</td>
<td>4</td>
<td>184.80</td>
</tr>
<tr>
<td>05</td>
<td>Stationery</td>
<td>5</td>
<td>633.60</td>
</tr>
<tr>
<td>06</td>
<td>Office furniture and maintenance</td>
<td>6</td>
<td>382.80</td>
</tr>
<tr>
<td>07</td>
<td>Maintenance of motor vehicle</td>
<td>7</td>
<td>646.60</td>
</tr>
<tr>
<td>08</td>
<td>Maintenance of capital assets</td>
<td>8</td>
<td>1,240.80</td>
</tr>
<tr>
<td>09</td>
<td>Staff training and development</td>
<td>10</td>
<td>145.20</td>
</tr>
<tr>
<td>10</td>
<td>Miscellaneous expenses</td>
<td>11</td>
<td>976.80</td>
</tr>
<tr>
<td>11</td>
<td>Contribution to foreign bodies</td>
<td>12</td>
<td>554.40</td>
</tr>
</tbody>
</table>

**Total budget cost** 5,359.00

Workings

<table>
<thead>
<tr>
<th></th>
<th><strong>₦’M</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Travel and tours</td>
<td>(290 x 110% x 120%) 382.80</td>
</tr>
<tr>
<td>Utility services</td>
<td>(160 x 110% x 120%) 211.20</td>
</tr>
<tr>
<td>Telephone services</td>
<td>(140 x 110% x 120%) 184.80</td>
</tr>
</tbody>
</table>
Stationary   (480 x 110% x 120%)   633.60
Office furniture maintenance   (290 x 110% x 120%)   382.80
Maintenance of capital vehicle   (490 x 110% x 120%)   646.80
Maintenance of capital assets   (940 x 110% x 120%) 1,240.80
Staff training and development   (110 x 110% x 120%)   145.20
Miscellaneous   (740 x 110% x 120%)   976.80
Contribution to foreign bodies   (420 x 110% x 120%)  554.40

b. **Fiscal policy** is the use of taxation and government expenditure to regulate economic activities. Fiscal policy can be employed to achieve macroeconomic objectives of full employment, economic growth, external balance, price stability, and equitable distribution of income and wealth. It is the means by which a government adjusts its spending levels and tax rates to monitor and influence a nation's economy.

**Types of fiscal policy**

i. **Expansionary fiscal policy**: This entails a reduction in taxes or increase in government spending to induce increase in aggregate consumption, demand, investment and production levels. It is typically deployed to stimulate growth when the economy is operating below its full employment capacity. It is facilitated by an expansionary budget when government expenditure exceeds its revenue.

ii. **Contractionary fiscal policy**: This entails an increase in taxes or decrease in government expenditure to moderate aggregate consumption, demand, investment and production levels. It is typically deployed when the economy is operating above its full employment capacity, overheating and faced with rising inflation. It is facilitated by a contractionary budget when government revenue exceeds its expenditure.

**Marking guide**

<table>
<thead>
<tr>
<th>b. Definition of fiscal policy</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4</td>
</tr>
<tr>
<td>a. Heading</td>
<td></td>
</tr>
<tr>
<td>Format @ 2 marks each</td>
<td>2</td>
</tr>
<tr>
<td>Correct calculation of the ten sub-heads of overhead cost @ ½ mark each</td>
<td>5</td>
</tr>
<tr>
<td>Correct calculation the total overhead cost</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
SOLUTION 6

a.i. **Definitions**

- **Defined contribution plans** are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal constructive obligation to pay further contributions if the fund does not hold sufficient asset to pay all employee benefits relating to employee service in the current and prior periods.

- **Defined benefit plans** are post-employment benefits plans other than defined contribution plans.

**Distinctions between defined contribution plans and defined benefit plans**

- Post-employment benefits include:
  - Retirement benefits, such as pensions; and
  - Other post-employment benefits, such as post-employment life insurance and post-employment medical care.

- Under defined contribution plans:
  - The entity’s legal or constructive obligation is limited to the amount that it agrees to contribute to the fund; and
  - In consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall on the employee.

- Under defined benefit plans:
  - The entity’s obligation is to provide the agreed benefits to current and former employees; and
  - Actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the entity. If actuarial or investment experience are worse than expected, the entity’s obligation may be increased.

ii. **A qualifying insurance policy** is an insurance policy issued by an insurer that is not a related party (as defined in IPSAS 20) of the reporting entity, if the proceeds of the policy:

<table>
<thead>
<tr>
<th>Identification of the two types of fiscal policy @ 1½ mark each</th>
<th>2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Explanation of the two types of fiscal policy @ 1½ mark each</td>
<td>2</td>
</tr>
<tr>
<td>Explanation of the performance of the two types of fiscal policy on the Nigerian economy @ 1½ mark each</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
</tr>
</tbody>
</table>
Can be used only to pay or fund employee benefits under a defined benefit plan; and

Are not available to the reporting entity's own creditors (even in bankruptcy) and cannot be paid to the reporting entity, unless either:

- The proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefits obligations; and
- The proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

b. i. The major categories of the federal government expenditure and revenue in Nigeria are:

- **Recurrent revenues**: These are the amount of revenue collected by the government agencies from their usual regular sources of revenue. Examples are taxes, rates, rents, fees, fines, etc.
- **Capital receipts**: These are the proposed government revenue earned from its capital projects or investments. Examples are revenues from innovations and inventions.
- **Recurrent expenditures**: These are expenses carried out by the government year by year. These are expenses that continue to recur such as wages and salaries that are paid to civil servants every month in every financial year.
- **Capital expenditures**: These are proposed expenditures of a government on capital-intensive projects that will last for a long time. Good examples of capital expenditures are roads, dams, seaport, hospitals, airports, etc.

ii. Differences between government purchases and government transfer payments

**Government purchases**: These are expenditures and gross investment by federal, state and local governments, excluding transfer payments and interest on debt. It is also known as, purchases made by the government from the private sector.

**Transfer payments**: These are payments considered to be non-exhaustive because they do not directly absorb resources or create output. Examples of transfer payments include financial aid, social security, and subsidies for certain businesses.

<table>
<thead>
<tr>
<th>Marking guide</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.i. Explanation of defined contribution plans,</td>
<td>1</td>
</tr>
<tr>
<td>Task</td>
<td>Marks</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>-------</td>
</tr>
<tr>
<td>Explanation of defined benefit plans</td>
<td>1</td>
</tr>
<tr>
<td>Distinction between defined contribution plans, defined benefit plans</td>
<td>3</td>
</tr>
<tr>
<td>Expected answer: defined benefit plans are plans where the employer</td>
<td></td>
</tr>
<tr>
<td>contributes a set amount of money on behalf of the employee.</td>
<td></td>
</tr>
<tr>
<td>ii. Explanation of qualifying insurance policy</td>
<td>5, 10</td>
</tr>
<tr>
<td>b.i. Identification of the four major categories of the federal government expenditure and revenue in Nigeria</td>
<td>6</td>
</tr>
<tr>
<td>ii. Explanation of the differences between government purchases and government transfer payments</td>
<td>4, 10</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
</tr>
</tbody>
</table>