



NATIONAL OPEN UNIVERSITY OF NIGERIA
Plot 91, Cadastral Zone, Nnamdi Azikiwe Express Way, Jabi-Abuja
Faculty of Management Sciences, Department of Financial Studies
2020_2 EXAMINATION...

COURSE CODE: ACC 318

CREDIT UNIT: 2

COURSE TITLE: TAXATION II

TIME ALLOWED: 2 HOURS

Instructions:

- 1. Attempt question number ONE (1) and any other TWO (2).**
- 2. Question number ONE (1) is compulsory and carries 30 marks while the others carry 20 marks each.**
- 3. Present all your points in coherent and orderly manner.**

Question One

- i. Mimi Nigeria Limited has been in existence for so many years with an accounting year end of 31st October. The details of its financial transaction for the year ended 31st October, 2017 is as shown below:

| | ₦ | ₦ |
|---------------------------|-----------|----------------|
| Gross Profit | | 19,288,926 |
| Sundry Income | | <u>749,403</u> |
| | | 20,038,329 |
| Less: Operating expenses: | | |
| Wages and salaries | 4,437,858 | |
| Depreciation | 1,124,760 | |
| Maintenance and repairs | 1,440,804 | |
| Bank charges | 991,326 | |
| Lighting and heating | 294,138 | |

| | | |
|-----------------------------|------------------|-------------------|
| Rent and Rates | 748,380 | |
| Fuelling | 781,476 | |
| Legal and professional fees | 890,232 | |
| Staff pension contribution | 438,810 | |
| Donations and subscription | 450,000 | |
| Sundry expenses | 384,180 | |
| Directors remuneration | 558,000 | |
| Bad and doubtful debt | 288,198 | |
| Auditors fee | 600,000 | |
| Sundry losses | <u>1,274,901</u> | <u>14,703,063</u> |
| Profit for the year | | <u>5,335,266</u> |

Additional information:

- i. Sundry expenses is made up of the following:

| | |
|--|----------------|
| | ₦ |
| Office provisions for beverages | 75,180 |
| Loss on forieign exchange for import payment | 270,000 |
| Penalty for traffic offence | 3,000 |
| Penalty for late payment of PAYE | <u>36,000</u> |
| | <u>384,180</u> |

- ii. A breakdown of Legal and Professional fees are as given below:

| | |
|--------------------------------|----------------|
| | ₦ |
| Lawyer's retainership fee | 380,232 |
| Debt collection commission | 120,000 |
| Registration of mortgages fees | 150,000 |
| Renewal of lease | <u>240,000</u> |
| | <u>890,232</u> |

- iii. General provision for bad and doubtful debt of ₦60,000 is included in bad and doubtful debt.
- iv. Capital allowance for the year as agreed with the Revenue is ₦613,767
- v. Misappropriation by financial controller of ₦600,000 is included in Sundry losses.

Required:

- a) Prepare the Adjusted profit and tax liability of Mimi Nigeria Limited for the relevant year of assessment. **(16 marks)**
- b) In accordance with Section 20 of CITA, for an expenses to be admissible for deduction. It has to meet up with some specified criteria. Identify these criteria. **(4 marks)**
- c) State any **THREE (3)** conditions that must be satisfied before any donation can be permissible as deductions. **(3 marks)**
- d) Israel Nigeria Plc commenced trade on 1st October, 2017. Its accounting year end is 30th September. The company acquired a Plant and Machinery in the first year of operation at the dates stated below:

| | ₦ |
|---------|-----------|
| 1/10/17 | 5,200,000 |
| 1/11/17 | 5,350,000 |

Required: Compute the initial and annual allowance for the first year of assessment. (7 marks)

(Total 30 marks)

QUESTION TWO

- a) Distinguish clearly Tax and Taxation. **(1 mark)**
- b) Revenue generation over the years has been an issue of debate. It has been proven that taxation is a sure way of generating income but aside of generating income there are some other reasons why government subject its citizens to tax. Discuss at least **FOUR (4)** other reasons why government subject its citizens to tax aside revenue generation. **(4 marks)**
- c) It is fact that companies go into business for profit making purposes, tax is paid on the profit made in any given financial year. However sometimes companies also make loss, therefore there is a tax provision on what to do when a company makes loss instead of profit. What is the loss relief provision in Nigeria? **(5 marks)**
- d) Mention any **FIVE (5)** means each through which companies and individuals can engage in tax avoidance and tax evasion. **(10 marks)**

(Total 20 marks)

QUESTION THREE

- a). In your opinion, why do you think minimum tax is necessary **(2 Marks)**
- b) Who are those that are expected to pay minimum tax? **(2 Marks)**

c) Tax compliance is a situation in which taxpayer pays his/her tax as at when due and in the right prescribed format. To ensure tax compliance, fines and penalties are levied on offenders at different categories. Discuss the different offences you know alongside its penalties. **(10 Marks)**

d) Incomes are proceeds that accrue to an individual. Some are classified as earned while others as unearned. Differentiate between both types of income clearly with examples. **(6 Marks)**

(20 marks)

QUESTION FOUR

a) Tax clearance certificate in recent times has become a very important document to a taxpayer; this is because it is required in so many instances before so many business dealings can be negotiated. Mention **EIGHT (8)** uses of tax clearance certificate to a taxpayer. **(8 marks)**

b) Tax evasion and Tax avoidance are the major problem that any tax authority is bedeviled with, but aside these two major problems in Nigeria, there are some other problems which hinder business taxation in Nigeria. Mention at least **FOUR (4)** of such other problems. **(2 marks)**

c) Jason has been in business for some time now. Its financial year runs from 1st of January to 31st December. Due to some prevailing issues, the management has agreed that the company should change its accounting date. Below are details of financial activities as it relates to adjusted profit of the company.

| | |
|--|-----------|
| 12 months to 31 st December 2014 | 792,000 |
| 12 months to 31 st December, 2015 | 1,056,000 |
| 18 months to June 30th 2017 | 1,487,400 |
| 12 months to June 30 th 2018 | 633,600 |

Required:

Calculate the assessable profit of Jason Nigeria Limited for the relevant years of assessment and also advise the revenue on which basis to adopt. **(10 Marks)**

QUESTION FIVE

a). Depreciation is a non- allowable expenses as far as taxation is concerned in Nigeria., but in place of depreciation, capital allowance is granted. Explain what you understand by the term ‘Capital Allowance’ **(2 marks)**

b) State the difference between Initial allowance and Annual Allowance in a tabular form.**(4 marks)**

c) Abdu finished his NYSC in 2008; he searched for a white collar job years but failed to get any. In 2016, he attended a Wealth creation seminar which opened his eyes to the fact that he has the ability of being an employer instead of an employee. He therefore decided to open up his own business in January, 2017 with an accounting year end of 31st December. Below are his financial transactions for the financial year ending 31st December, 2018.

| | ₦ | ₦ |
|---|---------------|------------------|
| Gross income | | 1,707,500 |
| Less operating expenses: | | |
| Fine for violating traffic offence | 18,000 | |
| Salaries and wages | 40,000 | |
| Rent and rates | 15,000 | |
| Lighting hand heating | 30,000 | |
| Pension contribution scheme for employees | 25,0000 | |
| Stationery | 20,000 | |
| Provision for bad and doubtful debt: | | |
| General nature | 17,000 | |
| Specific nature | 22,000 | |
| Depreciation | 75,000 | |
| Income tax | <u>30,000</u> | <u>(292,000)</u> |
| Profit for the year | | <u>1,515,500</u> |

Additional information:

- i. Capital allowance for the year is ₦50,000
- ii. Abudu stays in the same premises, he decided that 1/3 of the rent and rate is for private uses.
- iii. Included in the Gross income is Profit of ₦67,500 from the disposal of a non-current asset.
- iv. Omitted allowable expenses amounts to ₦20,000.

Required: Compute the income tax liability of Abudu for the relevant year of assessment.

(14 marks)

(Total 20 marks)

TAX RATES

1. Rates of Personal Income Tax

| | Taxable Income | Rate of Tax (%) |
|-------|----------------|-----------------|
| First | 300,000 | 7 |
| Next | 300,000 | 11 |
| Next | 500,000 | 15 |
| Next | 500,000 | 19 |
| Next | 1,600,000 | 21 |
| Above | 3,200,000 | 24 |

2. Companies Income Tax Rate **30%**

3. Education Tax **2%**

4. Capital allowance rate of Plant and Machinery:

| | |
|----------------|---------------|
| Initial | Annual |
| 50% | 25% |