

COVENANT UNIVERSITY

TUTORIAL KIT

PROGRAMME: ACCOUNTING

OMEGA SEMESTER

300 LEVEL



*Raising A New Generation Of Leaders*

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# COVENANT UNIVERSITY

CANAANLAND, KM 10, IDIROKO ROAD  
P.M.B 1023, OTA, OGUN STATE, NIGERIA.

**TITLE OF EXAMINATION:** OMEGA SEMESTER EXAMINATION

**COLLEGE:** BUSINESS AND SOCIAL SCIENCES

**SCHOOL:** BUSINESS

**DEPARTMENT:** ACCOUNTING

**SESSION:** 2014/2015

**SEMESTER:** OMEGA

**COURSE CODE:** ACC 321

**CREDIT UNIT:** 3

**COURSE TITLE:** FINANCIAL ACCOUNTING IV

**INSTRUCTION:** ANSWER ALL QUESTIONS IN SECTION A AND B **TIME:** 3 HOURS

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## SECTION A - MULTIPLE CHOICE QUESTIONS

(Total=10 marks)

1. Which one of the following options **best** describes a customer in the accounts of solicitors?  
(a). Client of the firm (b). Partner in the law firm (c). Supplier of relevant financial accounting skills (d). An entrepreneur
2. In the accounts of solicitors, a Job can also be referred to a .....  
(a). Matter (b). Business Relationship (c). Transaction (d). All of the above
3. Voyage accounting is a system of accounting that ascertains the ..... from a particular voyage.  
(a). Income (b). Expenses (c). Profit or loss (d). Total Assets

Use the information below to answer the next three questions that follow.

Bliss Gardens Estate Development Nigeria Plc was registered in 2005.

As at 30<sup>th</sup> April, 2012 the position of the company was as follows:

	₦'000	₦'000
Authorized share capital		25,000
Issued and fully paid:		
Ordinary shares @N1 per share		27,000
Creditors		1,500
Investment (market value)		3,450
Freehold land for sale (at cost)		4,800
Bank		2,260

Additional information:

- i. Proceeds from the sale of Arena amounted to ₦1.5 million.
- ii. Proceeds from the sale of Land amounted to ₦3 million.
- iii. Investment income ₦150,000.
- iv. Dividend paid to shareholders amounted to ₦1.35 million.
- v. Payments to trade creditors amounted to ₦125,000.
- vi. Profit for the year stands at ₦5.185 million
- vii. Property, plant and equipment of the business is valued at ₦20 million.

4. The balance on the bank account is ..... .  
 (a). ₦5,435 (b). ₦6,910 (c). ₦5,560 (d). ₦6,785
5. In the statement of financial position, the total figure of non-current assets is ..... .  
 (a) ₦20,000 (b). ₦23,450 (c). ₦28,250 (d). ₦24,800
6. A ..... can be defined as a contractual agreement between two parties, whereby a party known as the contractee agrees to pay a specified consideration to the other party, known as the contractor, for the execution of a specific project based on specified terms and conditions.  
 (a). Programme (b). Construction relationship (c). Construction contract (d). All of the above
7. A contract that spans over one year is known as ..... .  
 (a). Building contract (b). Short-term contract (c). Long term contract (d). Construction contract
8. In a purchase of business scenario, when the amount of purchase consideration paid by the buyer is greater than the value of net assets of the business that is bought, the result is ..... .  
 (a). goodwill (b). gain on bargain purchase (c). negative goodwill (d). an increase in the value of liabilities
9. Which of the following options is a current asset in the statement of financial position of estate agents?  
 (a). Freehold premises for sale (b). Freehold premises for the business (c). Plant and equipment (d). Furniture and fittings
10. Which of the following options is not an agricultural activity according to International Accounting Standard 41?  
 (a). Managing a zoo (b). Floriculture (c). Raising livestock (d). Breeding horses

**SECTION B - THEORY**

**(TOTAL=60 marks)**

1. Jonathan, an unsuccessful grocer, filed his own petition in bankruptcy, as at 31<sup>st</sup> March 1979 (the date of the receiving order), the business balance sheet showed the following:

	₦		₦	₦
Capital Account:		Freehold shop	18,000	21,000
As at 1/4/78	9,000			
Add: Profit for year to 31/3/79	<u>3,000</u>	8,000 share of Dicey Ltd (brought 1/4/78)	15,000	300
	12,000	Stock in trade	6,000	4,500
Less: Drawings during year to 31/3/79	2,700	Trade debtors	6,750	5,250
	<b>9,300</b>	Cash at bank	750	750

Trade Creditors:	₦		
Preferential	750		
Others	24,450	25,200	
Mortgage (secured on shop)		12,000	
		<b>46,500</b>	<b>46,500</b>

In addition to the above, Jonathan had the following private assets and liabilities:

Assets:	₦
Bank current account	600
Car	300
Gold wristwatch	75
Liabilities:	
Tailor	90
Bookmaker (unsuccessful bets)	150

During 1965 Jonathan had created a voluntary settlement of ₦8,000 in favour of his invalid mother, Elizabeth.

Prepare as at 31<sup>st</sup> March 1979:

- Jonathan's statement of affairs
- The relevant deficiency account. (Total=12 Marks)

2. OBINNA Limited offered 2 million ordinary shares of ₦ 1.00 each to the public as follows:

15 kobo on application on 1<sup>st</sup> March 19X9

50 kobo on allotment on 15<sup>th</sup> March 19X9

25 kobo on 1<sup>st</sup> call on 30<sup>th</sup> April 19X9

10 kobo on final call on 31<sup>st</sup> May 19X9

The whole of the issue was underwritten by Assurance Finance Limited at a commission of 10%. The underwriter had deposited the cheque for the application money with Obinna Limited. The cheque was cleared when the result of the offer became known and Obinna Limited paid the agreed commission. The offer was fully subscribe by the public.

You are required to show the underwriting account in the books of Assurance Finance Limited.

(Total=12 marks)

3. (a). Briefly explain each of the following with two examples each according to International Accounting Standards (IAS) 41.

- Biological asset (3 marks)
- Agricultural activities (3 marks)
- Biological transformation (3 marks)

(b). According to the IFRS for farm accounting, biological assets are measured at initial recognition, and at each statement of financial position date at their fair value less costs to sell, except in limited circumstances.

Required: State TWO circumstances where the IFRS for farm accounting permits departure from current fair value. (3 marks)

(Total=12 marks)



the OSWHC. The contract was awarded in 2012, among 100 other contracts that was commissioned by Governor Amosu and was given the contract number OG/BR/100/10/12 for reference and the following are shown as details in Dangote construction PLC books.

- . At the initial, the company had 20 labourers but as the work progressed, the labourers increased by 50. By the end of the contract, the number of labourers increased to 100 costing ₦15,000 per labourer.
- i. Adebisi enterprise supplied materials worth ₦84, 000. ₦ 10, 000 worth of the material was returned. Due to the shortfall, Dangote construction plc decided to acquire more materials worth ₦56, 000 and all the materials were good for the construction.
- ii. In order to have more materials on site, the site manager ordered for the supply of materials (granite) from the Asokoro store and this material was worth ₦30, 000.
- iii. There were direct expenses to settle bills on site worth ₦46, 000
- iv. More plants were required on site. Bonopart Automobile supplied ₦24, 000 value of plant for hire.
- v. There were general overhead apportioned worth ₦74, 000.
- vi. At the end of the contract, work not yet certified by Dantata and Co's professional was worth ₦330, 000
- vii. Amount certified by the professional was worth ₦2, 200, 000
- viii. Cash received on account was ₦5, 000, 000.

From the information given above, You are required to prepare the contract account to show the profit of Dangote construction PLC at the end of the contract. (9 Marks)

(Total=12 marks)

**SECTION A- MULTIPLE CHOICE QUESTIONS -10 MARKS**

1. A
2. A
3. C
4. A
5. B
6. C
7. C
8. A
9. A
10. A

**SECTION B- THEORY - 60 MARKS**

**QUESTION NUMBER 1 = 12 marks**

**JONATHAN**

**STATEMENT OF AFFAIRS AS AT 31ST MARCH 1979**

GROSS LIABILITIES	LIABILITIES N	EXPECTED TO RANK N	ASSETS	ESTIMATED TO PRODUCE N
Unsecured creditors		24,540	cash at bank	1350
Fully secured creditors	12,000		stock in trade (cost N6000)	4500
Estimated value of security	21,000		Shares in Li coy ltd (cost N15000)	3000
Surplus (per contra)	9000		Car	3000
			Gold watch	75
Preferential creditors (deducted per contra)	750		Surplus from securities with fully secured creditors (per contra)	9000
				15525
			Book debts	6750
			Estimated to Produce	5250
				20775
			Deduct: Preferential Creditors	750
				20025
			Deficiency (see deficiency account)	4515

Note: The voluntary settlement by Jonathan in favor of his mother cannot be set aside by the Trustee for the benefit of Creditors because it was executed more than before the date of the receiving order.

The debt owing to the tailor is admissible but the amount owing to the book worker is not admissible, as it relates to a gaming debt.

#### Deficiency Account

	N		N
Excess of assets over liabilities as at 1st April 1978	9885	Drawings for the year to 31st March 1979	2700
Profit for the year to 31st March 1979	3000	Bad debts	1500
Increase in value of Freehold Shop	3000	Losses on revaluation of other assets:	
Deficiency as per statement of affairs	4515	Shares in Dicey Ltd	14,700
		Stock-in-trade	1,500
	20,400		20,400

Working:	N		N
Balance on capital account on 1st April 1978			9,000
Add/ Personal assets:			
Car	300		
Bank current account	600		
Gold watch	75		
	975		
less: Debt owing to tailor	90		885
Excess of Assets over liabilities			9885

**QUESTION NUMBER 2 = 12 marks**

**OBINNA LTD**

Underwriting Accounts- Ordinary Shares					
	No. Of Shares	Value (N)		No. Of Shares	Value (N)
1/3/x9 bank (application money)		300,000	15/3/x9 bank-commission (0.06* N2m)		120,000
15/3/x9 bank (w.1)	600,000	90,000	31/3/x9 balance c/d	680,000	480,000
15/3/x9 commission (0.04 * N2million)	80,000				
30/3/x9 bank (1st call) N2		150,000			
31/3/x9 bank (final call) N3		60,000			
	680000	600,000		680000	600,000
1/4/x9 bal bld	680,000	480,000			

Working: Shares allotted to Assurance Finance Ltd.

Number of shares not taken by the public= 3

For 2 million shares = 0.6 million shares

Since Assurance Finance Ltd underwrote the whole offer, it is bound to take up all of the 600,000 shares not taken by the public.

w. 1 Sum due from Underwriter from Application to Allotment  $(0.15+0.50) * 600,000$  shares=

390,000

Less/ amount previously deposited with Obinna Ltd 300,000

Being balance paid by underwriter on allotment 90,000

w. 2 1<sup>st</sup> call money paid by Assurance Finance Ltd =  $600,000 * 0.25 = \text{N}150,000$

w.3 Final call money paid by Assurance Finance Ltd =  $600,000 * 0.1 = \text{N}60,000$

### **QUESTION NUMBER 3 = 12 marks**

a. (i). A living animal or plant

examples: sheep, pigs, poultry, fish, dairy cows, trees in a forest, plants for harvest, Trees, plants and bushes from which agricultural produce is harvested (fruit trees, vines and tea bushes) (3 marks for definition and any two examples)

(ii). The management by an entity of the biological transformation of biological assets for sale, into agricultural produce or into additional biological assets. (3 marks for definition and any two examples)

examples of agricultural activities are:

Raising livestock, fish or poultry, Stud farms (breeding horses or cattle), forestry, Cultivating vineyards, orchards (an intentional planting of trees or shrubs that is maintained for food production. They are also fruit or nut-producing trees grown for commercial production) or plantations (a long, artificially established forest, farm or estate, where crops are grown for sale, often in distant markets rather than for local on-site consumption). Plantations are grown on a large scale as the crops are grown for commercial purposes, not for local consumption; Floriculture (is flower farming, it is a discipline of horticulture that is concerned with the cultivation of flowering and ornamental plants for gardens and floristry.

(iii). Biological transformation is the process of growth, degeneration, production and procreation that cause qualitative or quantitative changes in a biological asset. (3 marks for definition and any two examples)

(b). There are two instances where the Standard permits departure from current fair value:

- i. At the early stage of an asset's life
- ii. When fair value cannot be measured reliably (1.5 marks each for the two points = 3 marks)

**QUESTION NUMBER 4 = 12 marks**

Osibanjo Plc				
Journal entries for the purchase of the business of Sambo Plc				
As at January 1 <sup>st</sup> , 2015				
		Dr.		Cr.
		#		#
a. Goodwill		58,400		
Land and Buildings		200,000		
Motor Vehicles		160,000		
Office Equipment		20,000		
Office Furniture		20,000		
Stock		19,400		
Debtors		22,200		
Purchase of Business Account				<u>500,000</u>
		<u>#500,000</u>		
<b>#500,000</b>				
Being assets taken over on purchase of the business of Sambo Plc				
b. Purchase of business account		20,000		
Creditor Account				
18,000				
Accrued Expenses Account				
2,000				
Being liabilities taken over on the purchase of Sambo Plc				
c. Purchase of Business Account		480,000		
Cash Account				
480,000				
Being settlement of purchase consideration to Sambo Plc.				

  

Osibanjo Plc				
Balance Sheet				
As at January 1 <sup>st</sup> , 2015				
	#	#		#
Capital			Fixed Assets:	
480,000			Land and Buildings	200,000
Current Liabilities			Motor Vehicles	160,000
Creditors	18,000		Office Equipment	20,000
Accrued expenses	<u>2,000</u>		Office Furniture	<u>20,000</u>
				<b>400,000</b>
			Goodwill	58,400
			Current Assets:	
			Stock	19,400
			Debtors	<u>22,200</u>
		<u>500,000</u>		<u>41,600</u>
				<u>500,000</u>

(ii). **Sambo Plc.**

**Statement of Cash after Sale of Business**

Balance b/f:	#
Bank	11,320
Cash	680
	<u>12,000</u>
Add purchase consideration	480,000
Balance in hand	<u>492,000</u>

**QUESTION NUMBER 5 = 12 marks**

- a). Notional profit can be defined as the value of work certified less cost of work certified. **(2 Marks)**
- b). the relevance of interim payment is to ensure that the work is completed before payment is made in order to ensure that the contract is not half-hazily done. **(1 Mark)**

c) Dangote Construction Plc Contract Account for the Construction of the bridge

	N		N
Direct Material (74, 000+ 56,000)	130, 000		
Material from store	30, 000	Material on hand	10, 000
Wages (100*15, 000)	1,500,000	Cost of contract to date c/d	1,794,000
Direct expenses	46,000		
Plant hire	24,000		
General overhead	74,000		
	<u>1,804,000</u>	<b>1,804, 000</b>	
Cost of contract to date b/d	1,794,000	Value of contract certified	2,200,000
Profit taken 1,115,152	1,115,152	Value of work done not yet certified	330,000
	<u>2,909, 152</u>	Balance c/d	379, 152
			<u>2,909, 152</u>

Working

Profit taken =  $\frac{2}{3} \times \text{notional profit} \times \text{cash received} / \text{value of work certified}$

Notional profit = value of work certified – cost of work certified

$$= 2,200,000 - 1,464,000 \quad (\text{i.e. } 1,794,000 - 330,000)$$

$$= 736, 000$$

$$\frac{2}{3} \times 736,000 \times 5,000,000 / 2,200,000$$

$$\frac{2}{3} \times 736,000 \times 2.27 = \frac{2}{3} \times 1672727.27$$

**(9 Marks)**

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P.M.B 1023, OTA, OGUN STATE, NIGERIA.

**TITLE OF EXAMINATION:** Omega Semester Examination

**COLLEGE:** Business and Social Science

**SCHOOL:** Business Studies

**DEPARTMENT:** Accounting

**SESSION:** 2014/2015

**SEMESTER:** Omega

**COURSE CODE:**ACC 322

**CREDIT UNIT:** 3 Units

**COURSE TITLE:** Advanced Cost Accounting

**INSTRUCTION:** Attempt all questions

**TIME:** 3 HOUR

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## SECTION A: MULTIPLE CHOICE QUESTIONS

1. Which of the following techniques represents the period usually expressed in years, which makes the cash flows from a capital investments appraisal of project to equal the initial outflow?

- A. Internal Rate of Return
- B. Accounting Rate of Return
- C. Pay Back Period
- D. Net Present Value
- E. Profitability Index

2. Which costs and revenue, appropriate to a specific management decision, that are represented by future cash flows whose magnitude will vary depending upon the outcome of management decision?

- A. Relevant Cost
- B. Differential Cost
- C. Marginal Cost
- D. Incremental Cost
- E. Opportunity Cost

Use the information below to answer Questions 3 and 4 Bijabi Limited has determined its activity level and is now budgeting for its costs for the quarter ended 31 May, 2010. It has made the following predictions:

Variable Costs	Probability	Fixed Costs	Probability
N240,000	0.35	N175,000	0.25
N305,000	0.25	N182,000	0.30
N501,000	0.40	N201,000	0.45

3. What is the Expected Value of the Total Variable Costs?

- A. N351,500
- B. N358,500
- C. N359,600
- D. N360,500

E. N360,650

4. What is the Expected Value of the Total Fixed Cost?

A. N187,500

B. N188,800

C. N201,500

D. N281,500

E. N361,500

5. What is capital budgeting?

A. A budget for long term expenditure

B. A budget for obtaining investments of capital in the firm.

C. A budget for investments of short-term funds in the capital markets

D. Budget for business capital

E. Budget for business formation

Use the following data to answer Questions 6 and 7.

Unit selling price	N500
Variable cost per unit	N260
Fixed cost	N52,000
Tax rate	40%

6. What is the break-even point in units?

A. 214 units

- B. 215 units
- C. 217 units
- D. 218 units
- E. 250 units

7. How many units should be produced to achieve a target income of N12,000 after tax?

- A. 300 units
- B. 320 units
- C. 370 units
- D. 410 units
- E. 420 units

8. Fixed cost per unit increases when

- A. Variable cost per unit increase
- B. Variable cost per unit decreases
- C. Production volume increases
- D. Production volume decreases

9. Variable cost per unit

- A. Varies when output varies
- B. Remains constant
- C. Increases when output increases
- D. Decrease when output decreases

10. Which of the followings is the reason of increase in total variable cost:

- A. Increase in fixed cost
- B. Rise in interest on capital
- C. Increase in direct material cost
- D. Depreciation of machinery

11. For a system of budgeting to succeed in any organization, the following conditions among others must be present except one:

- a) A realistic organisation structure with clearly defined responsibilities
- b) Irregular revision of budget and targets where necessary
- c) They must be clear cut definition of long-term corporate objectives within which the budgeting system will operate
- d) An appropriate accounting and information system

12. One of the these is NOT a limitation of Budgetary system:

- a) Budget do not take account of changes in technology, political factors and inflation
- b) Budget sometimes leads to the establishment of unrealistic targets
- c) Adequate data sometime render budget useless
- d) Budget do not indicate those responsible for a variance

13. The five basic duties of Managers are planning, organizing, controlling, leading and .....

14. The equation  $y = a + bx$  which represents the equation for a linear function with one independent variable; b in the equation is .....

Employ the data below to answer questions 15 and 16. Maintenance costs of Hardrick IT Company are to be analyzed for the purposes of constructing a budget. Examination of past records disclosed the following costs and volume measures:

	Highest	Lowest
Cost per month	N78,400	N64,000
Machine – (hours)	48,000	30,000

15. Compute the variable cost per unit.

16. What is the total fixed cost?

17. The sets of standards dealing with human conduct in relation to what is morally good and bad is.....

. UNICOVENANT Company Ltd sells a product for N10. Budgeted sales for the first quarter of year 2010 are given below:

Budgeted sales

	N
January	400,000
February	600,000
March	700,000

The company collects 70% in the month of sales and 25% in the following month. Five per cent (5%) of all sales are uncollectible and written off.

18. Calculate the budgeted cash receipts for February.

19. Determine the budgeted cash receipts in March.

20. The discount rate that makes the net present value of a project equal to zero

is .....

### **SECTION B.**

1a. Management are at leverage to decide on a costing technique to adopt in decision making depending on the objectives of the company and the prevailing economic situation of the company. Itemise the costing techniques you know (3Marks)

1b.. The management of Akinlolu Enterprises have contacted you to prepare a budgeted income statement which is to be submitted to Higher Level Bank to apply for a loan. The following information was provided by the management of the company as anticipated sales and expenses:

Sales Price @ ₦50 per unit

Direct Labour @ ₦5 per unit of production

Direct Material @ ₦12 per unit of production

Direct Expenses @ ₦8 per unit of production

Fixed Cost of production ₦200,000

You are required to prepare the budgeted income statement for the company using the two costing techniques you know if quantity produced are 50,000 units, 75,000 units and 100,000 units.

(7 Marks)

**2)** Costs that need to be taken into account in any particular decision making process under marginal costing techniques are the relevant costs.

a) For the purpose of valuing materials in pricing decisions, explain the following:

- i. Replacement price
- ii. Net realizable value
- iii. Historical value

(5Marks)

- b) In decision making, it is not all labour costs that are classified as relevant costs. Explain how the salary/wages of the following should be treated:
- i. Full-time worker
  - ii. New employee for the project
  - iii. Casual worker (5Marks)

(3a). The preparation of a Cash Budget is one major way an organisation ensures that its operations are not disrupted by shortage or otherwise of cash during a budget year. What is a Cash Budget? Enumerate two other benefits derivable from a cash budget? (2marks)

(3b) HOE PLC is the producer of a universally recognised living product called WWE. The company have recently hired you to take over the finances department. The following data relate to the company's expectation for the fourth quarter of 2015.

- i. The closing cash balance in June is expected to be 10,000
- ii. Cash sales will be 40,000 (JULY), 70,000 (AUG) and 100,000 (SEPT)
- iii. Collection from debtors is expected to be 170,000 in July, 150,000 in August and 220,000 in September
- iv. The investment of the company had yielded 100,000 and this will be received in August
- v. The company creditors for purchases made will be paid as follows: 120,000 in July, 120,000 in August and 200,000 in September
- vi. The company income tax will be paid in the first week of September and is estimated to be 90,000
- vii. Additional office equipment costing N50, 000 will be bought in July. The company's policy is to depreciate equipment on straight line basis (8 Marks).

## **REQUIRED**

Prepare a Cash Budget for the third quarter of 2015 (10 Marks)

#### QUESTION 4

Beauty for Aches Nig. Ltd has recorded the following costs and output units during the last SIX years of its operations.

<u>YEAR</u>	<u>OUTPUT (UNITS)</u>	<u>TOTAL COST (N)</u>
2009	80	10,200
2010	90	10,900
2011	100	12,100
2012	86	10,800
2013	120	13,700
2014	110	12,500

A very close look at total costs for each year, reveals that they were largely mixed and Beauty for Arches Nig. Ltd has contacted you to employ your Advanced Cost Accounting skills in effecting a segregation of the total cost into its fixed and variable elements.

Required:

- a) With the aid of HIGH AND LOW as well as ORDINARY LEAST SQUARE METHODS, effect the agreed segregation. (7 Marks)
- b) State two advantages and two disadvantages of each of the methods ( 3 Marks)

#### QUESTION 5

**A) State five assumptions of Cost-Volume-Profit analysis**

B) JEGAPOLL Limited makes a single product: CARDREADER, with a sales price of N10 and a marginal cost (variable cost) of N6. Fixed costs are N60, 000 p.a.

You are required to calculate for JEGAPOLL Limited:

- a) The number of units to break-even
- b) Sales at break-even point
- c) What number of units will need to be sold to achieve a profit of N20,000 p.a
- d) What level of sales will achieve a profit after tax of N20, 000 p.a given a tax rate of 40%.

## ACC 322 MARKING GUIDE

### 2014/15 SESSION

1. C
2. A
3. E
4. B
5. A
6. C
7. A
8. C
9. B
10. C
11. B
12. C
13. Decision making
14. Variable cost per unit
15. ₦0.8 OR 80k
16. ₦40, 000
17. Ethics
18. ₦520, 000
19. ₦640, 000
20. IRR

Solution:

1a. The following are the costing techniques available:

- i. Marginal Costing Technique
- ii. Absorption Costing Technique

1b.

Akinolu Enterprises

Budgeted income statement using marginal costing technique

	50,000 units		75,000 units		100,000 units
N	N	N	N	N	N
Sales @ N50 per unit		2,500,000		3,750,000	5,000,000
Direct Labour @ N5	250,000		375,000		500,000
Direct Material @ N12	600,000		900,000		1,200,000
Direct Expenses @ N8	400,000	<u>(1,250,000)</u>	600,000	<u>(1,875,000)</u>	800,000 <u>(2,500,000)</u>
Contribution		1,250,000		1,875,000	2,500,000
Fixed Cost of production		<u>200,000</u>		<u>200,000</u>	<u>200,000</u>
Net Profit		<u>1,050,000</u>		<u>1,675,000</u>	<u>2,300,000</u>

Akinolu Enterprises

Budgeted income statement using absorption costing technique

	50,000 units		75,000 units		100,000 units
N	N	N	N	N	N
Sales @ N50 per unit		2,500,000		3,750,000	5,000,000
Direct Labour @ N5	250,000		375,000		500,000
Direct Material @ N12	600,000		900,000		1,200,000
Direct Expenses @N8	400,000		600,000		800,000
Fixed cost of production	<u>200,000</u>	<u>1,450,000</u>	<u>200,000</u>	<u>2,075,000</u>	<u>200,000</u> <u>2,700,000</u>
Net profit		<u>1,050,000</u>		<u>1,675,000</u>	<u>2,300,000</u>

## **Solution**

### Pricing Decision under Marginal Costing Techniques

Costs that need to be taken into account in any particular decision making process under marginal costing techniques are the relevant costs.

The actual price to charge under the above techniques will be addition of the following:

Direct Material: For the purpose of valuing materials three different types of material pricing decisions are used:

1. Replacement price: this represents the current market price of an item of raw material in the stock. In decision making, replacement price will be used in valuing raw material, if it can be established that the raw material is frequently used in the company or that the raw material is in continuous demand.
2. Net Realizable value: this is the current disposable value of an item of raw material held in stock. In decision making, net realizable value will be used in valuing stock, if it can be established that certain materials purchased sometimes ago can no longer be utilized for the initial objective.
3. Historical value: in decision making, historical value represents irrelevant cost.

Direct Labour cost: is total remuneration payable to the worker for producing the product or service. In decision making, it is not all labour costs that are classified as relevant costs. They are classified as follows:

- i. Full-time worker: this represents a fixed cost to the organization; it is therefore irrelevant in decision making. However, where a full-time worker engages in over-time for the purpose of decision, the over-time cost will be considered, not the entire labour cost.
- ii. New employees: their costs are relevant.
- iii. Casual workers for the project: their costs are relevant.

ACC 322 ADVANCED COST ACCOUNTING

OMEGA 2014/2015

MARKING GUIDE

- A) i. CASH BUDGET: This is a budget that shows in summary form the expected cash inflows and cash outflows during a given period of time.

OTHER BENEFITS OF A CASH BUDGET

1. It identifies periods of potential deficit or surplus
2. It enables financial feasibility of plans to be ascertained
3. It indicates the financial effect of policies to the firm
4. It provides the base for monitoring actual activities with a view to update information to be incorporated into the budget revisions.

SECTION A

16. B

17. C

18. A

19. D

20. D

B) HOE PLC

CASH BUDGET FOR THE THIRD QUARTER OF 2015

	JULY	AUG	SEPT
	N'000	N'000	N'000
Opening Balance	10	50	250
<u>RECEIPT</u>			
Cash Sales	40	70	100
Debtors Collections	170	150	220
Investment Returns	-	<u>100</u>	-
TOTAL RECEIPTS (a)	<u>220</u>	<u>370</u>	<u>570</u>

PAYMENTS:

Creditors	120	120	200
Income Tax	-	-	90
Office Equipment	<u>50</u>	-	-
TOTAL PAYMENTS (b)	<u>170</u>	<u>120</u>	<u>290</u>
CLOSING BALANCE (a-b)	<u>50</u>	<u>250</u>	<u>280</u>

A. High & Low Method

	H	L	
Activity	120	80	= 40
Cost	13,700	10,200	= 3,500

$$b = \frac{3,500}{40} = \text{K}87.5$$

$$a = Y - bx \\ = 13,700 - 87.5(120) \\ = \text{K}3,200$$

X	Y	(X- $\bar{X}$ )	(y- $\bar{y}$ )	(X- $\bar{X}$ ) (y- $\bar{y}$ )	(X- $\bar{X}$ ) <sup>2</sup>
80	10,200	-18	-1500	27,000	324
90	10,900	-8	-800	6,400	64
100	12,100	2	400	800	4
86	10,800	-12	-900	10,800	144
120	13,700	22	200	44,000	484
110	12,500	12	800	9,600	144
<u>586</u>	<u>70,200</u>			<u>74,300</u>	<u>1164</u>

$$X=98, Y=11,700$$

$$b = \frac{\sum(X-\bar{X})(y-\bar{y})}{\sum(X-\bar{X})^2}$$

$$= \frac{74300}{1164} = \text{N}63.83$$

$$a = \bar{y} - b\bar{x}$$

$$= 11,700 - 63.83(98)$$

$$= 11,700 - 6,255.50$$

$$= \text{N}5,444.5$$

#### B. Advantages of High and Low Method

1. It is simple to calculate and understand.
2. It is capable of providing a consistent result from different categories of decision makers.
3. It eliminates subjectivity on the part of decision makers.

#### Disadvantages

1. The method represents a simple average of the two extreme data.
2. The final result of the High and Low method may not reflect the actual cost position of the organization.

#### Advantages of Least-square Regression Method

1. It provides accurate results.
2. It uses data very efficiently.
3. It can incorporate multiple independent variable.

#### Disadvantages

1. In practice, relationship between cost and activity level may not be linear, it may be curvi-linear.
2. A large number of observation is required.
3. It is fairly difficult to calculate.

### Assumption of CVP Analysis

- a) The behavior of sales revenue and cost is linear throughout the period.
- b) The number of units sold is equal to the number of units produced.
- c) Variable cost change in            in direct proportion to the level of activity.
- d) All cost can be divided into fixed and variable elements.
- e) Labour productivity, production technology and market conditions do not change.
- f) In multiproduct firms, the sales mix remains constant.

$$\begin{aligned} \text{The BEP (unit)} &= \frac{60,000}{10-6} \\ &= 15,000 \text{ units} \end{aligned}$$

$$\begin{aligned} \text{BEP (₦)} &= \frac{60,000}{10-6} \\ &= \text{₦}15,000 \end{aligned}$$

$$\begin{aligned} \text{Units} &= \frac{60,000 + 20,000}{4} \\ &= 20,000 \text{ units} \end{aligned}$$

$$\begin{aligned} \text{Sales} &= 60,000 + \frac{20,000}{1-0.4} \\ &= \text{₦}233,333.33 \end{aligned}$$

# COVENANT UNIVERSITY

CANAANLAND, KM 10, IDIROKO ROAD

P.M.B 1023, OTA, OGUN STATE, NIGERIA

TITLE OF EXAMINATION: B.Sc. Degree

COLLEGE: BUSINESS AND SOCIAL SCIENCE

SCHOOL: BUSINESS

DEPARTMENT: ACCOUNTING

SESSION: 2014/2015

SEMESTER: OMEGA

COURSE CODE: ACC 323

CREDIT UNIT: 2

COURSE TITLE: AUDITING PRINCIPLE AND PRACTICE

INSTRUCTIONS: ANSWER ALL QUESTIONS

TIME ALLOWED: 2HRS

## Part A

1. Good cross-referencing of work paper:
  - a. Requires the use of letters and Arabic numerals
  - b. Calls for notations in red pencil
  - c. Permits the elimination of an index for the work papers
  - d. Facilitates independent review
  - e. All of the above
2. In discussing the audit findings, the internal auditor may show the audit work papers to the auditee when:
  - a. Performing an audit of negotiable securities
  - b. Audit objectives are not compromised
  - c. The auditee asks to see them
  - d. The auditee would not otherwise take corrective action
  - e. None of the above
3. Internal auditors should:
  - a. Disclose the contents of their work paper to the auditee
  - b. Use the work papers as a basis for personnel evaluation
  - c. Never destroy work papers
  - d. Remove the work papers from the audit site during the audit
  - e. None of the above.
4. Direct support for the internal audit report is provided by the :
  - a. Preliminary survey

- b. Walk-through of a facility
  - c. Audit work papers
  - d. Preliminary interview with the auditee
  - e. All of the above
5. The internal auditor prepares summaries of data work papers to:
- a. Assist reviewers by assembling significant information
  - b. Accumulate individual items into increasingly comprehensive digests
  - c. Provide material for permanent retention
  - d. All of the above
  - e. A and c above
6. Cross-referencing for work papers should be:
- a. Done after completing the field work
  - b. Used to confirm data previously recorded
  - c. Consistently applied
  - d. Referred to in the audit report
  - e. A and c above
7. Work papers should:
- a. Document audit work performed
  - b. Omit names of individuals
  - c. Support conclusions and recommendations
  - d. All of the above
  - e. A and c above
8. For a population of 25,000 items an estimated error rate not to exceed 5%, a confidence level of 95%, and a precision of plus or minus 3%, the required sample size for a population of 100,000 items would be:
- a. 202
  - b. 302
  - c. 402
  - d. 502
  - e. 602
9. Systematic (internal) sampling selection:
- a. Requires a random start within the first interval
  - b. Will disclose items missing from the population
  - c. Cannot be used when the population is contained in computer records
  - d. All of the above
  - e. None of the above
10. Stop-or-go sampling has, as its principal objective, the detection of:
- a. A fictitious employee on a payroll
  - b. A duplicate payment of an invoice
  - c. An unauthorized shipment of goods

- d. A purchase from a supplier whose financial status is questionable
- e. None of the above

11. \_\_\_\_\_ is a group of people legally and morally charged with the responsibility to govern an organization
12. \_\_\_\_\_ and \_\_\_\_\_ are some of the governance issues in the Cadbury case
13. \_\_\_\_\_ and \_\_\_\_\_ are the first and second stages of an investigation process
14. \_\_\_\_\_ and \_\_\_\_\_ are some of the reasons for investigating fraud
15. In writing an investigation report the language of the report must be \_\_\_\_\_ and \_\_\_\_\_
16. \_\_\_\_\_ prescribe the basic principles and practices which members of the accountancy bodies are expected to apply whenever an audit is carried out.
17. It is the responsibility \_\_\_\_\_ to set up internal control system in an organization
18. \_\_\_\_\_ relates to the intentional misrepresentation of financial information.
19. The term \_\_\_\_\_ refers to the possibility that the auditors may unknowingly fail to appropriately modify their opinion on financial statements that are materially misstated.
20. Audit Risk = Inherent Risk X Control Risk X \_\_\_\_\_

(20 Marks)

### Part B

1. The Internal Audit Department was told that two employees were terminated for falsifying their time records. The two employees had altered over-time hours on their time cards after their supervisors had approved the hours actual worked. Several years ago, the company discontinued the use of the time clocks. Since then the plant supervisors have been responsible for the manually posting the time cards and approving for manually posting the time cards and approving the hours for which their employees should be paid. The postings are usually entered in pencil by the supervisors or their secretaries. After the posting for the week are completed, the time cards are approved and placed in small racks outside the supervisor's office for pick up by the time keepers. Some-times, the time-keepers do not pick up the time cards promptly.

**Required:**

Assuming the company does not wish to return to using time cards, give six recommendations to prevent recurrence of the situation described above. For each recommendation, indicate how it will deter fraudulent reporting of hours worked. **(13Marks)**

2. The term investigation can be described as the examination of the records and financial statements of an organization for a specified purpose.  
 a) Discuss briefly how it differs from conventional audit.

**(6marks)**

b) Buhari is about going into a partnership business with Jonathan and has engaged you as an investigating accountant. What are the issues that your investigations will cover?

(6 marks)

**(12 Total marks)**

3. Corporate governance is concerned with ways of bringing the interests of investors and manager into line and ensuring that firms are run for the benefit of investors. What are the benefits of corporate governance to

a) The company

(6marks)

b) The shareholders

(6marks)

**(12 Total marks)**

4. Audit risk is the situation where the auditor states that the financial statements do not meet the standard of fair presentation, when in fact they do. In relation to audit risk, explain the following: Inherent Risk, Control Risk and Detection Risk.

**(13marks)**

**70 Total Marks**

## Marking Scheme

### MCQ

1. D
2. B
3. E
4. C
5. E
6. C
7. E
8. A
9. A
10. E

### Part A Solution

11. A board
12. Lack of the Oversight Functions of the Board and Improper bank governance
13. Obtaining the terms of reference and Professional Etiquette
14. To determine the extent of fraud committed and to establish the parties involved
15. Clear and unambiguous
16. Auditing standards
17. Management
18. Fraud
19. Audit risk
20. Detection Risk

### Part B solution

- 1) There were lots of challenges on the question. These are listed below:
  - a. The postings were manually entered in pencil.
  - b. The postings were sometimes delegated to the secretaries.
  - c. The cards after approval were placed in racks outside the supervisor's office.
  - d. The cards were not used or worked on for weeks after approval.
  - e. The time keepers do not pick the cards for payment for weeks.

1B) All the above challenges have their implications

We know from accounting history that fraud can be reduced but it cannot be stopped. However, according to Frederick William Robertson, there are three things in the world that deserve no mercy- hypocrisy, tyranny and fraud.

## **2) Differences between Auditing and Investigation by Dr. (Mrs) O Uwuigbe**

Investigation is the act of detail examination of activities so as to achieve certain objectives. Specially, investigation is made in suspected places. It finds out the nature and reasons of suspected areas but auditing is the act of examining books of accounts so as to prove true and fairness of operating results and financial position of a business. Following differences can be seen between auditing and investigation:

### **1. Purpose**

An audit is carried out for the purpose of ascertaining whether or not the balance sheet and profit and loss account show true and fair view of the state of company's affairs and its profit or loss. But an investigation aims at establishing a fact or is carried out for some particular purpose i.e. to know the financial position of the concern or the earning capacity of the concern etc.

### **2. On Behalf**

An audit is carried out on behalf of the proprietor of the business, while an investigation may be conducted on behalf proprietors when they suspect any fraud in their business or on behalf of outside parties who wish to lend money or intend to purchase business or at the instance of the government on the request of the shareholders.

### **3. Scope**

An audit includes only an examination of the accounts of a business whereas an investigation covers not only an examination of the accounts but also an inquiry into other relevant matters connected with the purpose for which it is undertaken.

### **4. Use Of Techniques**

An audit is usually a test checking but an investigation is a much more thorough examination of the books of accounts. It goes into the depth of the problem and keeps on looking for far more definite evidence to arrive at a conclusion that it can firmly substantiate. Further, investigation may be conducted even after the audit of the accounts.

### **5. Period**

An audit is related to only a year or six months while investigation may cover several years.

## 6. Statutory Obligation

In the case of joint stock companies, audit is compulsory under law while there is no such statutory obligation with regard to investigation.

## 7. Examination Use of Policies (1 mark each for any five point with explanation = 5 marks)

In audit, an auditor has to see whether the methods of valuation and other accounting policies have been consistently followed or not and he has to ensure that all disclosures have been properly made in the financial statements, while an investigation is not at all bound by accounting conventions, policies and disclosure requirements.

2b) For partnership participation, the investigating accountant takes the following into consideration:

- Collection and verification information obtained from the owners of the firm
- Analyse the data into performance, position and prospects of the partnership business
- Nature and background of the partnership business
- Demand for the reason for admitting new partner(s)
- Obtain the partnership deed to establish the rules and regulations guiding the business
- Obtain information relating to profit sharing arrangement
- Obtain audited account of the partnership business
- Obtain information relating to the liability of the incoming partner(s) for existing debt of the partnership

(1 mark each for any five point= 5 marks)

- 3) Corporate governance is a system by which companies and firms are regulated, controlled and directed. It is a situation whereby the company's board of directors, shareholders and management work hand in hand, to govern the firm and ensure that goals are achieved. The following are therefore some of the advantages of corporate governance to a company:
- a) Improving access to capital and financial markets: Helps to survive in an increasingly competitive environment through mergers, acquisitions, partnerships
  - b) adopting good corporate governance practices leads to a better system of internal control, thus leading to greater accountability and better profit margins
  - c) Good corporate governance practices can pave the way for possible future growth, diversification, or a sale, including the ability to attract equity investors – nationally and from abroad.

To shareholders

- d) Better corporate governance provide Shareholders with greater security on their investment.
- e) Better corporate governance also ensures that shareholders are sufficiently informed on decisions concerning fundamental issues like amendments of statutes or articles of incorporation, sale of assets, etc.

(1Mark for each point of 5= 5 marks)

SOLUTION TO QUESTION 4 by Adetula, D.T.

**Inherent risk**

The possibility of a material misstatement ignoring the client's internal control is referred to as inherent risk. Factors that affect inherent risk relate to either the nature of the client and its industry, or to the nature of the particular financial statement account.

Business characteristics of the client and its industry affect the inherent risk of the audit as a whole. Therefore, these characteristics affect the assertions about a number of financial statement accounts. Inherent risk represents the auditor's assessment that there may be a material misstatement relating to an assertion in the financial statements under audit, without taking the effectiveness of the related internal controls into account.

### **Control risk**

Control risk represents the auditor's assessment of the likelihood that a material misstatement relating to assertion in the financial statements will not be detected and corrected, on a timely basis, by the client's internal control system. It is the risk that the internal control system may not prevent or detect the material misstatements or errors.

### **Detection risk**

Detection risk is defined as the likelihood that a material misstatement relating to assertion will not be detected by the auditor's substantive testing, procedures and his review of the financial statement. It is important to note that the detection risk indicates the detection risk that the auditor is willing to "live with", given the acceptable audit risk and his assessment of inherent and control risk. This means that if the detection risk is high, the auditor is willing to accept a high detection risk, and will do less substantive testing as compared to a situation where the detection risk is lower.

(Each 4.34 marks x3=13 marks)

# COVENANT UNIVERSITY

CANAANLAND, KM 10, IDIROKO ROAD  
P.M.B 1023, OTA, OGUN STATE, NIGERIA.

**TITLE OF EXAMINATION:** B.SC EXAMINATION

**COLLEGE:** COLLEGE OF DEVELOPMENT STUDIES

**SCHOOL:** SCHOOL OF BUSINESS

**DEPARTMENT:** ACCOUNTING

**SESSION:** 2014/2015 **SEMESTER:** OMEGA

**COURSE CODE:** ACC325 **CREDIT UNIT:** 3

**COURSE TITLE:** NIGERIAN TAXATION 1

**INSTRUCTION:** Answer All **TIME:** 2.30 HOURS

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## **MULTIPLE-CHOICE QUESTIONS [20Marks]**

1. The objectives of taxation are as follows EXCEPT

- a]. To provide fiscal tool for stimulating economic growth and development
- b]. To promote healthy competition among different tiers of government
- c]. For revenue generation to meet the needs of the government
- d]. To redistribute income wealth in order to reduce inequality
- e]. To provide income for government for use of Social Responsibility

2. Listed below are the examples of indirect taxes EXCEPT

- a]. Import duties
- b]. Value added tax
- c]. Excise duties
- d]. Withholding tax
- e]. Export Duties

3. The following are the cannons of taxation EXCEPT

- a]. Accountability
- b]. Equity
- c]. Economy
- d]. Ability to pay
- e]. Flexibility

,

4. The following are the sources of tax EXCEPT

- a]. Opinion of income tax experts
- b]. Court judgment until overruled
- c]. Opinion of a member of House of Assembly of any State
- d]. Constitution
- e]. Accepted recommendations of commission on enquiry

5. Tax system includes the following:

- a]. Tax law only
- b]. Tax administration only
- c]. Tax policy only
- d]. Tax policy and tax law
- e]. Tax law, tax policy and tax administration

6. The following are the duties of the Joint Tax Board in Nigeria EXCEPT

- a]. To enlighten members of the public generally on Federal and State government

revenue matters.

- b] To settle disputes between the states as regards tax matters.
- c]. To promote uniformity both in the application and incidence of the provision of tax laws on individuals throughout the country.
- d]. To advise the government on request in respect of double taxation arrangements, rates of capital allowances and other tax matters.
- e]. To impose its decision on States on matters of procedure

7. A forum is formed at any meeting of the State Internal Revenue Board where there is in attendance.

- a. The chairman and three other members
- b. The chairman or a Director and two other members.
- c. The chairman or a Director and four other members
- d. The chairman and seven other members
- e. Chairman and one Director

8. Appeals can only be lodged later than 30 days if the delay in lodging the notice of appeal is due to the following **EXCEPT**

- a. The objector's absence from the country
- b Sickness of objector
- c. Other reasonable clause
- d. There is no unreasonable delay on the part of the objector.
- e. Wedding of objector

9. The Tax Clearance Certificate discloses in respect of the last three years of assessment of the following **EXCEPT**

- a Chargeable income
- b. Tax payable
- c. Tax paid
- d. Projected income
- e Tax outstanding or a statement to the effect that no tax is due.

10. Tax is evaded through the following ways **EXCEPT**

- a. Refusing to register with the relevant tax authority
- b. Failure to furnish returns
- c. Incorporating tax payers sole proprietor into Limited Liability Company
- d. Entering into artificial transactions
- e. Overstating expenses so as to reduce taxable profit.

11. An agreement by which money or property is specifically set aside for the benefit or use of another known as the beneficiary is known as

- (a) Estate (b) Settlement (c) Trust (d) Inheritance

12. Consistency is a required feature of ..... Basis Period

- (a) Preceding Year (b) Abnormal (c) Actual Year (d) Normal

13. On cessation of trade or business, capital allowances arising in the assessment year in which trade permanently ceases may be carried back for relief against the remainder of profit of the ..... year(s) of assessment preceding the final year of trading.

- (a) 5 (b) 4 (c) 3 (d) penultimate

14-15. **Fill in the gap**

Chargeable persons in Estates, Trusts, and Settlements include ....., ....., and .....

16-17. Beneficiaries from the income of an Estate include: ....., ....., .....and .....

18. The notice of assessment will contain the following **EXCEPT**

- a. The tax payable
- B. The total profit on which the tax was charged
- c The address for service of any notice
- d The tax charged in previous year
- e The name of the addressee.

19. The following are the advantages of Self-Assessment Scheme **EXCEPT**

- a] There is reduction in time taken to raise assessment
- b] It is now possible to earn a bonus for early submission
- c The taxpayer can pay the tax in 10 equal monthly installment payment
- d It gives a measure of confidence to taxpayer
- e It reduces the job load on the part of revenue staff

20. Under the commencement rules, a taxpayer has the option to be assessed to tax on actual year basis for ..... Years of assessment.

- a First and second
- b First and third
- c Second and third
- d Second and fourth
- e Third and fourth

1a] As a consequence of a crash in the price of crude oil, both Federal and State Governments in Nigeria have secured the services of tax consultants to carry out back duty and tax investigations. This has increase the returns into the cover of the various governments just as it has necessitated the filling of notices of appeal. Against this background, explain

i] Back duty and tax investigation [3Mks]

ii] Search and Seizure [2Mks]

iii] Appeals [2Mks]

b] What are the composition and functions of the Joint Tax Board? [3Mks]

2] Mr. James, an executive officer with Toby Investment Limited provided the tax authorities with the following information which represented his income as agreed from all sources for 2012 assessment year

Salary from employment	1,720,000
Commission on sales	350,000
Income from part-time business	1,120,000
Dividend [net] for 2011	100,000
Pension from previous employment	310,000
Rent received from properties 2011	350,000
Annual bonus	210,000
Interest on bank deposit 2011	70,000

Required: Compute Mr. James statutory total income and his tax liability for the year 2012 [10Mks]

b] What are the features of Pay As You Earn [5Mks]

3]. **Mrs Olowolayemo** commenced a bakery business on 1<sup>st</sup> April, 1998 making up her accounts to 30<sup>th</sup> September each year. She has the following adjusted profits:

	N
Period to 30/9/98	180,000
Year ended 30/9/99	660,000
Year ended 30/9/00	420,000
Year ended 30/9/01	240,000

You are required to compute the assessable income of the business for all relevant years taking advantage of any option to minimize its tax liability. (15 marks).

4]. 'Loss relief takes priority over capital allowances and there are two types of loss reliefs available to a sole trader who incurs a loss' As a young tax expert, you have been asked to explain this quotation in some details (10 marks).

## **SOLUTION ACC 325 [2014/15]**

### **MULTIPLE CHOICE: SOLUTION [ACC325 1415]**

**1] B**

**2] D**

**3] A**

**4] C**

**5] E**

**6] A**

**7] C**

**8] E**

**9] D**

**10] C**

**11] B**

**12] D**

**13] A**

**14] Direct Beneficiaries,**

**15] Trust Manager, Person setting up a Trust**

**16] The Legatee, a Beneficiary,**

**17] A Presiduar Legatee or Residuary Devisee, An Annuitant**

**18] D**

**19] C**

**20] C**

## **SOLUTION: Q1 ACC 325 2014/2015**

**[1ai] BACK DUTY AUDIT.** The relevant tax authority may carry out a back duty audit on a taxpayer under the provisions of companies' income Tax Act 1990 or personal income tax decree of 1993. The law allows the relevant tax authority to audit up to 6 years backward. The records of the taxpayer are audited to examine the truth in the information that was earlier provided in the annual returns or tax computations. To confirm that income has not been materially understated, and that expenses have not been overstated.

### **[1aii] SEARCH AND SEIZURE.**

Where the relevant tax authority is of the opinion:

That there is a reasonable ground for suspecting any form of total or partial non-disclosure of information or

That there is any form of tax fraud

Then an officer may be authorized to enter, if necessary by force to conduct a search on the premises, registered office or the place of management or the residence of any individual, suspected to be in custody of any relevant evidence.

The officer effecting the search warrant may seize and remove anything which he has reasonable cause to believe may be required for the purpose or arriving at a fair and correct tax chargeable on the individual or as evidence for the purposes of proceedings on the tax offence. The officer may obtain the assistance of the police to carry out the search.

### **[1aiii] THE OBJECTION AND APPEAL PROCEDURES**

1. Where a taxpayer receives a notice of assessment, he either agrees with it or he is aggrieved. Where there is no objection, the tax must be remitted to the relevant tax authority within statutory time limit of 60days from the date he receives the assessment.
2. Where the taxpayer is aggrieved, he must raise a valid notice of objection: i.e.-  
Must be made in writing,  
-Must be made within 30days of the receipt of the notice of assessment.  
-Must contain the grounds of objection.
3. The relevant tax authority must examine the validity of the notice of objection. Where the grounds of objections are valid, the tax authority will review and revise/amend the assessment raised. The taxpayer will pay based on the revised assessment.
4. Where there is no merit in the notice of objection as assessed by the tax authority, a notice of refusal to amend will be sent to the taxpayer.

5. If the taxpayer is not happy with the refusal notice, he will file a notice of Appeal to the Body of Appeal commissioners within 30 days of the receipt of the notice of refusal to amend.
6. The Appeal Commissioner will examine the grounds of appeal. The taxpayer and tax authority may be invited to attend the sittings of the appeal. They have the right to be represented by a legal adviser, staff, auditor or tax adviser.

**[1b] Composition:**

**It** has a board with the following constitution:

Executive chairman of federal inland revenue service (FIRS) as chairman, A member from each state of the federation who is experienced in taxation, secretary to the board appointed by the federal public service commission who is not a member of the board, but maintains records of proceedings, Legal adviser to the federal inland Revenue service also serves as adviser to the JTB.

***Functions***

1. To exercise the powers /duties conferred on it by any express provision of the personal income Tax Act of 1993.
2. To exercise the powers and duties conferred on it by any enactment of the federal Government in respect of companies Income tax.
3. To Advise the Federal Government on request on double taxation arrangement.
4. To promote uniformity both in the application of the personal income tax Decree 1993 and the incidence of tax on individuals.
5. To advice the federal Government on request on capital allowances rates and other taxation matters.
6. To impose its decisions on matters of procedure and interpretation of the PITA 1993 on any state of the federation for the purposes of conforming to such agreed interpretation.

## SOLUTION: Q2

### Mr. James

#### Computation of Total Income for 2012 Assessment Year.

	#	#
Earned Income		
Salary		1,720,000
Commission		350,000
Income from Part-time Business		1,120,000
Pension		310,000
Annual Bonus		210,000
Total Earned/Employment Income		3,710,000
<b>Unearned Income</b>		
Dividend (Gross)		111,111
Rent		350,000
Interest on bank deposit		70,000
<b>Statutory Total Income</b>		<b>4,241,111</b>
Less: Consolidated Allowance	(200,000)	
Less Personal Allowance	(848,222)	1,048,222
<b>Taxable Income</b>		<b>3,192,889</b>

1 <sup>st</sup> #300,000 at 7%	21,000
Next #300,000 at 11%	33,000
Next #500,000 at 15%	75,000
Next #500,000 at 19%	95,000
Next #1,592,889 at 21%	334,507
<b>Tax Due</b>	<b>558,507</b>

Workings: Dividend  
Net Amount = #100,000  
Withholding Tax 10%  
= Gross Amount  $100/90 \times 100,000$   
= 111,111

Personal Allowance  
20% of Gross Income  
#848,222

## **2b] Feature of PAYE**

The following are the features of PAYE scheme:

- a. An employer with not less than (5) staffs is expected to register for PAYE.
- b. The employer is the unpaid agent of the relevant tax authority.
- c. The employer completes the standard personal allowance form and submits to the employer.
- d. The relevant tax authority will issue tax free pay allowance certificate for each employee which is used by the employer in the PAYE Computation.
- e. Tax due from each employee should be deducted at source by the employer.

## SOLUTION: Q3

### 1. MRS OLOWOLAYEMO

#### WITHOUT TAX PAYER OPTION

Year of Assessment	Basis Period		Assessable Profit
1998	1/4/98-31/12/98		
	(i)	1/4/98-30/9/98 N180,000	
	(ii)	1/10/98-31/12/98	
		2/12 X 660,000= <u>N110,000</u>	N290,000
1999	1/4/98-31/3/99		
	(i)	1/4/98-30/9/98 N180,000	
	(ii)	1/10/98-31/3/99	
		6/12 X 660,000 <u>N330,000</u>	N510,000
2000	1/10/98-30/9/99		660,000
2001	1/10/99-30/9/00		420,000
2002	1/10/00-30/9/01		240,000

#### WITH TAX PAYER OPTION

Year of Assessment	Basis Period		Assessable Profit
1998	1/4/98-31/12/98		
	(i)	1/4/98-30/9/98 N180,000	
	(ii)	1/10/98-31/12/98	
		2/12 X 660,000 <u>N110,000</u>	N290,000
1999	1/1/99-31/12/99		
	(i)	1/1/99-30/9/99	
		9/12 X 660,000 N495,000	
	(ii)	1/10/99-31/12/99	
		3/12 X 420,000 <u>N105,000</u>	N600,000
2000	1/1/2000-31/12/2000		
	(i)	1/1/2000-30/9/2000	
		9/12 X 420,000 N315,000	
	(ii)	1/10/2000-31/12/2000	
		3/12 X 240,000 <u>N60,000</u>	N375,000
2001	1/10/99-30/9/2000		N420,000
2002	1/10/00-30/9/2001		N240,000

#### SUMMARY

	Normal Assessment	Revised Assessment
	N	N
1999	213,000	600,000
2000	<u>660,000</u>	<u>375,000</u>
	<u>873,000</u>	<u>975,000</u>

**CONCLUSION**

Since the aggregate assessable income for the second and third years computed on actual basis (with tax payer option) is more than the aggregate assessable income for second and third years computed on the normal basis (without tax payer option) by N102,000, it would be advantageous not to exercise the option of election. (15 Marks)

## **SOLUTION: Q4 .**

Where available profits are limited, loss relief will be considered first before capital allowances. The features of the two types of loss relief systems available to a sole trader are as follows:

### **CURRENT YEAR LOSS RELIEF SYSTEM**

- (a) relief must be formally applied for and approved
- (b) it is only applicable to an individual
- (c) losses may be relieved against all sources of income including balancing charges
- (d) relief under this basis is only available in the first year. Any unrelieved balance would be carried forward and shall be thereafter on carrying forward basis.

### **CARRY FORWARD LOSS RELIEF SYSTEM**

- (a) relief of losses is automatically granted i.e. no formal application is required.
- (b) loss may only be relieved from the profit generated from the same source of income.
- (c) this relief is applicable to both individuals and companies
- (d) losses incurred by a property letting business may only be relieved under this system.
- (e) Unabsorbed losses can be carried forward for a maximum of 4 years from year of assessment in which they were incurred. Any trade or business engaged in agro-allied activities is exempted from this rule. (10 Marks).

# COVENANT UNIVERSITY

CANAANLAND, KM 10, IDIROKO ROAD

P.M.B 1023, OTA, OGUN STATE, NIGERIA.

**TITLE OF EXAMINATION: B.Sc DEGREE EXAMINATION**

**COLLEGE: COLLEGE OF BUSINESS AND SOCIAL SCIENCES**

**SCHOOL: SCHOOL OF BUSINESS**

**DEPARTMENT: ACCOUNTING**

**SESSION: 2014/2015**

**SEMESTER: OMEGA**

**COURSE CODE: ACC 329**

**CREDIT UNIT: 1**

**COURSE TITLE: ACCOUNTING LABORATORY III**

**INSTRUCTION: WORK TO BE DONE IN SAGE ACCOUNT**

**TIME: 1 HOUR**

A Cement dealer OLOWONLE COMPANY (Your Matric No) whose fiscal year runs from January to December started operations on January, 2015 with a Capital of 12,000,000 which is made up of the following:

First Bank Account	-	7,000,000.00
FCMB Bank Account	-	3,500,000.00
Cash on Hand	-	1,500,000.00

The Customers and Suppliers list are shown below:

Customers		Suppliers	
CU (1)	Blue	SUPP (1)	Great Ent.
CU (2)	Saint	SUPP (2)	Vantage Company
CU (3)	Lola		

The Product List is shown below:

ID	Description	Cost Price	Selling Price	Unit of Sale
----	-------------	------------	---------------	--------------

CEM(Kg1)	KG 1 CEMENT	N4,000.00	N5,500.00	Bag
CEM (Kg2)	KG 2 CEMENT	N3,500.00	N4,000.00	Bag
CEM (Kg3)	KG 3 CEMENT	N2,500.00	N3,500.00	Bag

The following transactions took place during the month:

08/04/15: Purchased a Building at the Cost of N2, 000,000 using a First Bank Cheque with a depreciation of 20% on cost. In addition, a Fixture and Fittings valued at N350, 000 using FCMB Bank Cheque with 10% depreciation on cost.

09/04/15: Purchased 90 units of CEM (Kg1) and 80 bags of CEM (Kg2) from SUPP (2) and paid 60% using First Bank. Also purchased 85 bags of (CEM Kg3) from SUPP (1) and paid 50% of the total amount using FCMB Bank Cheque.

10/04/15: Sold 45 bags of CEM (Kg1) and 50 bags of CEM (Kg3) to CU (1) and 50 bags of CEM (Kg2) to CU(3) respectively and received 80% of the cost which was deposited into the FCMB Bank account.

11/04/15 Sold 20 bags of CEM (Kg2) to CU (2) and 80% of the cost which was deposited into the First Bank Account.

14/04/15: Paid 200,000 as salaries, Postage and Stationery150, 000 and transportation 50,000 from the Cash on Hand.

**Required:**

Create a new company using the company name and your Matric no. Enter the transactions above

Run your month end wizard

Print the Trial balance as at 30<sup>th</sup> April 2015

Print the Profit and Loss for the month of April 2015