

**NATIONAL OPEN UNIVERSITY OF NIGERIA**  
**Plot 91 Cadastral Zone Nnamdi Azikiwe Express Way, Jabi-Abuja**  
**FACULTY OF MANAGEMENT SCIENCES**  
**DEPARTMENT OF FINANCIAL STUDIES**  
**JANUARY 2018 EXAMINATION**

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**COURSE CODE: ACC 318**  
**COURSE TITLE: TAXATION**  
**TIME ALLOWED: 2 <sup>1</sup>/<sub>2</sub> HOURS**

**CREDIT UNIT: 3**

**Instructions:**

- 1. Attempt question number one (1) and any other three (3).**
  - 2. Question number 1 is compulsory and carries 25 marks while the other carry 15 marks each.**
  - 3. Present all your points in coherent and orderly manner.**
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**Question One**

1a) Noun Trading Company Limited has been in business for many years as a dealer in textiles. The following details of its transactions were extracted from its accounting records for the year ended 31 December 2016.

	₦	₦
Gross Profit		12,859,284
Sundry Income		<u>499,602</u>
		13,358,886
Less Expenses:		
Salaries and Wages	2,958,572	
Electricity and Water	196,092	
Depreciation	749,840	
Rent and rates	498,920	
Repairs and maintenance	960,536	
Fuel and oil	520,984	
Bank charges	660,884	
Bad and doubtful debt	192,132	
Legal and professional fees	593,488	
Sundry losses	849,934	
Company pension contribution	292,540	
Audit Fees	400,000	
Donation and Subscription	300,000	
Director's emolument	372,000	
Miscellaneous expenses	<u>256,120</u>	<u>9,802,042</u>
Net Profit		<u>3,556,844</u>

The following additional information are also made available:

i) Bad and doubtful debts consist of:

	₦
50% provision	40,000
Debts under litigation	100,000
Debts written off	100,000

Bad debts recovered	(47,868)
	<u>192,132</u>

ii) Sundry Losses include:

	₦
Goods lost in transit and uninsured	220,400
Misappropriation by Financial Controller	400,000
Embezzlement by Cashier	<u>229,534</u>
	<u>849,934</u>

iii) Legal and professional fees include:

	₦
Debt collection effort commission	80,000
Renewal of lease	160,000
Registration of mortgages fees	100,000
Legal retainership	<u>253,488</u>
	<u>593,488</u>

iv) Miscellaneous expenses consist :

	₦
Penalty for late payment PAYE	24,000
Penalty for drivers' traffic offense	2,000
Loss on exchange for import payment	180,000
Office beverages	<u>50,120</u>
	<u>256,120</u>

v) Capital allowances for the period agreed with revenue is ₦409,172

You are required to compute:

- Adjusted profit of the company for the relevant tax year (10 Marks)
  - The company's tax liabilities for the relevant tax year (5 Marks)
  - Give three (3) features of Small business tax ( 3 Marks)
  - Give three (3) exemptions from minimum tax (3 Marks)
  - Mention four (4) expenses that are not allowed for tax purposes (4 Marks)
- (Total 25 Marks)

## Question Two

Abuja, Lagos and Kaduna have been in business partnership for many years, they share profits and losses in the ratio of 2:2:1. The partnership firm submitted the following profit and loss statement for the year ended 31<sup>st</sup> December 2017, for the purpose of tax assessment:

	₦	₦
Gross profit		2,450,000
Less: Partnership Salaries		
Abuja	250,000	
Lagos	200,000	
Kaduna	150,000	
Interest on Capital		
Abuja	80,000	

Lagos	60,000	
Kaduna	50,000	
Depreciation	150,000	
Electricity	60,000	
Repairs	20,000	
Rate	30,000	
Motor Expenses	40,000	
Refuse Disposal expenses	20,000	
Legal retainership	40,000	
Miscellaneous expenses	10,000	
Audit and Accountancy	50,000	
Provision for bad debts	80,000	
Bad debts	10,000	
Stationery	40,000	
Postages and Stamps	30,000	
Entertainment	60,000	
Telephone	<u>20,000</u>	<u>1,450,000</u>
Net Profit		<u>1,000,000</u>

**Additional information:**

- (i) Legal expenses were incurred on the admission of Kaduna
- (ii) Capital Allowance amounted to ₦300,000
- (iii) Entertainment expenses were incurred on the birthday celebration of Lagos

**Required:** Calculate:

- (a) Partnership firm's adjusted profit (8 Marks)
  - (b) Assessable income of each of the partners (7 Marks)
- (Total 15 Marks)

**Question Three**

Tony Amodu commenced business on 1<sup>st</sup> April, 2014 and makes up his accounts to 30<sup>th</sup> June each year. The following information regarding profits adjusted for tax purposes is also available:

Period	Adjusted Profit (₦)
Period to 30/06/15	2,200,000
Year ending 30/06/16	4,800,000
Year ending 30/06/17	9,600,000

**Required:**

- a. Compute the assessable profit of Tony Amodu for the first five years of assessment (8 Marks)
  - b. Advise the tax payer on the right of election (5 Marks)
  - c. State who has a right to make an election in the following instances:
    - i. Commencement of trade or business.
    - ii. Change in accounting date (2 Marks)
- (Total 15 Marks)

**Question Four**

Rolex Ltd is a foreign company involved in air transport business. Its aircrafts are used for cargo and passenger flights between Nigeria and Spain.

The audited financial statements for year ended 31<sup>st</sup> December, 2016, revealed the following:

	N	N
Income from passengers:		
Madrid to Lagos		4,425,600
Lagos to Madrid		3,397,000
Income for cargo:		
Loaded into aircraft on other routes		2,260,000
Freight from Lagos to Madrid		
<u>3,375,000</u>		
		13,457,850
Deduct: Operating expenses:		
Depreciation	460,000	
Staff salaries	725,000	
Use of airport facilities	87,000	
Accommodation for airline crew	28,500	
Hotel bills for passengers	120,000	
General provisions	<u>35,000</u>	<u>1,455,500</u>
		<u>12,002,350</u>

In addition to the above, capital allowances were agreed with the relevant authority as 175% of depreciation.

**Required:**

Compute the income tax liability for the relevant year of assessment. (15 marks)

**Question Five**

- One of the major challenges of business taxation in Nigeria is that of tax evasion and avoidance. Explain the concept of "Tax Evasion" and "Tax Avoidance" (4 Marks)
  - Give four (4) dimensions each of tax evasion and avoidance known to you (8 Marks)
  - Give three (3) other problems militating against business taxation in Nigeria (3 Marks)
- (Total 15 Marks)**

**Question Six**

- Explain the term "Loss Relief" (3 Marks)
  - Give any four (4) provisions of the relevant tax laws on loss relief (6 Marks)
  - In accordance with the Nigerian income tax laws, explain the three (3) types of loss reliefs applicable for a business or trade (6 Marks)
- ( Total 15 Marks)**