



NATIONAL OPEN UNIVERSITY OF NIGERIA
Plot 91, Cadastral Zone, Nnamdi Azikiwe Express Way, Jabi-Abuja
Faculty of Management Sciences, Department of Financial Studies
2020_1 EXAMINATION

COURSE CODE: ACC318

CREDIT UNIT: 2

COURSE TITLE: TAXATION II

TIME ALLOWED: 2 HOURS

Instructions:

- 1. Attempt question number one (1) and any other two (2). Three (3) questions in all.**
- 2. Question number 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

a) PomPom Nigeria Limited is a manufacturer of bags. The following extracts from its financial statements for the year ended 31st December, 2019:

	N	N
Turnover		8,400,000
Less: Opening Inventory	801,000	
Purchases	5,680,000	
Carriage inwards	<u>110,400</u>	
	6,591,400	
Less: Closing Inventory	<u>(707,200)</u>	
Cost of sales		<u>(5,884,200)</u>
Gross Profit		2,515,800
Deduct:		
Administrative expenses:		
Director's remuneration	400,000	
Staff salaries and wages	300,600	
Rent and rates	200,000	
Transport and travelling	169,804	
Office expenses	80,890	
Vehicle running expenses	205,800	
Telephone	70,400	
Audit and other professional fees	60,000	

Sundries	111,800	
Repairs and maintenance	143,000	
Medical expenses	36,500	
Printing and Stationery	83,416	
Provision for doubtful debt – General	181,200	
Loss on sale of non- current assets	72,800	
Depreciation	176,400	<u>(2,292,610)</u>
Net Profit for the year		<u>407,190</u>

You are given the following additional information:

- i) One third of vehicle running expenses was expended on the personal car of the managing director used for the companies operation.
- ii) The figures for repairs and maintenance include an amount of N39,000 being cost of erecting a new gate to the factory.
- iii) 20% of the medical expenses relate to the children of a management staff who is entitled to medical facilities.
- iv) The capital allowances for the year was N240,000

Required:

- a) Prepare the tax liabilities of PomPom Nigeria Limited for the relevant year of assessment. Ignore minimum tax provisions. **(14 Marks)**
- b) Give four (4) conditions to be satisfied before donations can be allowable under the Company Income Tax Act (CITA) **(8 Marks)**
- c) Give three (3) features of small business tax **(3 Marks)**
- d) Mention five (5) expenses that are allowed for tax purposes **(5 Marks)**

Question Two

- a) Explain the concept of Tax Evasion and Tax Avoidance **(3 ½ Marks)**
- b) Give five (5) instances in which tax can be evaded in Nigeria **(7 ½ Marks)**
- c) Give six (6) instances in which tax can be avoided in Nigeria **(9 Marks)**

Question Three

- a) Give the steps involved in tax computation under Transportation and Telecommunication businesses in Nigeria. **(6 Marks)**
- b) The global income statement of Rainbow Airline, a foreign airline, operates in Nigeria for the year ended 31st December, 2019 shows the following:

	N'000	N'000
Transportation income		
- Income from passengers, cargo and mails		
Outside Nigeria sales	3,100,000	
Nigerian sales	<u>100,000</u>	3,200,000
Less: Transportation expenses		
- salaries and other expenses	2,300,000	
- depreciation	320,000	
- other disallowed expenses	<u>180,000</u>	<u>2,800,000</u>
Net Transportation Profit		400,000
Other income		
- income from properties (net)	25,000	
- income from maintenance (net)	50,000	
- income from duty-free shops (net)	50,000	
- income from catering (net)	<u>75,000</u>	<u>200,000</u>
Net Profit		<u>600,000</u>

Required: To determine the tax payable in Nigeria for the relevant year of assessment

(14 Marks)

Question Four

AA, BB and CC are in partnership and agreed to share profits or losses in the ratio of 2:2:3 respectively. During the year ended 31st December 2019, their books showed adjusted loss of N210,000 after accounting for:

	AA	BB	CC
	N	N	N
Salaries	70,000	80,000	150,000
Interest on Capital	12,000	16,000	12,000
Bonus	6,000	4,000	10,000
Depreciation	113,600		

Required:

Compute the assessable income of each partner. Show all workings **(20 Marks)**

Question five

Diamond commenced business on 1st April, 2016 and makes up his accounts to 30th June each year. The following information regarding profits adjusted for tax purposes is also available:

Period	Adjusted Profit (₦)
Period to 30/06/17	2,200,000
Year ending 30/06/18	4,800,000
Year ending 30/06/19	9,600,000

Required:

- Compute the assessable profit of Diamond for the first five years of assessment **(10 Marks)**
- Advice the tax payer on the right of election **(5 Marks)**
- State who has a right to make an election on commencement of trade or business **(5Mark)**