

**NATIONAL OPEN UNIVERSITY OF NIGERIA**

**PLOT 91, CADASTRAL ZONE, NNAMDI AZIKIWE EXPRESS WAY, JABI-ABUJA**

**FACULTY OF MANAGEMENT SCIENCES**

**DEPARTMENT OF FINANCIAL STUDIES**

**NOVEMBER2018 EXAMINATION**

**COURSE CODE: ACC 318 CREDIT UNIT: 3**

**COURSE TITLE: TAXATION II**

**TIME ALLOWED: 2 1/2 HOURS**

**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 questions carry 15 marks each**

 **3. Present all your points in coherent and orderly manner**

**Question One**

1a) Sky 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 31st December 2017.

 ₦ ₦

Gross Profit 12,859,284

Sundry Income 499,602

 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 256,120 9,802,042

Net Profit 3,556,844

The following additional information is 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)

192,132

ii)Sundry Losses include:

 ₦

 Goods lost in transit and uninsured 220,400

 Misappropriation by Financial Controller 400,000

 Embezzlement by Cashier 229,534

 849,934

1. Legal and professional fees include:

 ₦

 Debt collection effort commission 80,000

 Renewal of lease 160,000

 Registration of mortgages fees 100,000

 Legal retainership 253,488

 593,488

1. 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 50,120

 256,120

1. Capital allowances for the period agreed with revenue is ₦409,172

You are required to compute:

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

(Total 25 Marks)

**Question Two**

2a. what is capital allowance? (2 marks)

b. State four (4) conditions for granting capital allowance (4 marks)

c. Explain 3 types of capital allowance (9 marks)

(Total 15 marks)

**Questions Three**

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 31st 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 20,000 1,450,000

Net Profit 1,000,000

**Additional information**:

1. Legal expenses were incurred on the admission of Kaduna
2. Capital Allowance amounted to ₦300,000
3. Entertainment expenses were incurred on the birthday celebration of Lagos

**Required**: Calculate:

1. Partnership firm’s adjusted profit (8 Marks)
2. Assessable income of each of the partners (7 Marks) (Total 15 Marks)

**Question Four**

Buba Limited has been in business for many years. As a result of declining fortune the company ceased trading permanently on 30th September 2018. The adjusted profits were as follows:

Year ended 30th June, 2015 1,290,000

Year ended 30th June, 2016 520,000

Year ended 30th June, 2017 1,960,000

Year ended 30th June, 2018 1,300,000

3 months to 30th September, 2018 300,000

Required:

1. Compute the assessable profits of Buba Limited for the last three years of assessment (10 Marks)
2. What is the option open to Federal Inland Revenue Service? (3 Marks)
3. What are the rules governing the assessable profits for the Ultimate and Penultimate years in cessation of business? (2 Marks)

( Total 15 Marks)

**Question Five**

The records of White settlement created in favour of the four children, Black, Green, Purple and Red show the following as at 31st December, 2017:

 ₦

Rental Income (Gross) 2,960,000

Trading Income 1,600,000

Dividends (Gross) 980,000

Interest 520,000

Sundry Income 480,000

 The following additional information is available:

1. Trustee remuneration per Trust Deed:

Fixed 200,000

Variable 5% of the Total Income

1. Administration and other expenses ₦192,000
2. Fixed annuity to a beneficiary ₦160,000
3. Interest on debt repayment by the settlement is ₦196,000
4. Each beneficiary is entitled to 1/5 share of the net distributable income
5. The interest income is from Access Bank PLC
6. Under the terms of the Trust deed, the Trustees made discretionary payments to:

Black ₦120,000

Green ₦70,000

Purple ₦ 78,000

Red ₦100,000

1. Capital allowance ₦1,300,000
2. The children have no other income

You are required to compute the Income due to the Trustees and the beneficiaries (15 Marks)

**Question Six**

 Golden 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 31st December, 2017, 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 3,375,000

 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 35,000 1,455,500

 12,002,350

 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)