

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

PUBLIC SECTOR ACCOUNTING AND FINANCE

2019- PILOT QUESTIONS- Set 1

SECTION A: COMPULSORY QUESTION (40 MARKS)

QUESTION1

In an effort to promote accountability and transparency in governance, the government adopted and implemented the International Public Sector Accounting Standards (IPSAS) from January 2014. The governments (Federal, State and Local) and other public institutions adopted IPSAS in the reporting and presentation of financial statements to improve the quality and comparability of financial information, and to be in conformity with other advanced nations of the world. Cash Basis IPSAS is already adopted in the budgeting, accounting and presentation of financial statements, while Accrual Basis IPSAS took effect from January 2016.

In line with the adoption of Accrual Basis IPSAS, Eko State Government mandated the Accountant-General of the State to implement the Accrual Basis IPSAS in the preparation of their financial statements with effect from January 2017 which was complied with.

The consolidated trial balance for the year ended December 31, 2017 is stated below.

Description	Debit	Credit
	₦' million	₦' million
Property, plant and equipment:		
-Motor vehicle	85,000	
-Building	200,000	
-Furniture	120,000	
-Equipment	90,000	
-Plant and machinery	30,000	
-Investment property	40,000	
Intangible assets		
-Research and development	26,000	
- Accounting software	10,000	
Receivables:		
Long term loan	200,000	

Fine	4,000	
Penalty	6,000	
Fees	5,000	
Prepayment: insurance	300	
Inventories:		
- Office consumable	400	
-Un issued PPE furniture	300	
-Cash & its equivalents	1,600	
-Investment; treasury bill	600	
Acc. prov. for depreciation PPE		
-Motor vehicle		34,000
-Building		20,000
-Furniture		36,000
-Equipment		27,000
-Plant and equipment		14,000
Acc. for dep.-investment property		5,000
Acc. for impairment-long term receivable		3,000
Acc, amortisation- intangibles		2,000
Payable from exchange transaction		5,500
Unremitted deduction		7,000
Employee benefits obligations (current)		38,000
Deferred income- aids and grants		7,000
Accrued expenses:		
-Consultancy		5,000
-Utility bill		3,000
Capital grant from the Federal Republic of Wazobia		150,000
Long term borrowing;		
-Domestic		120,000

-Foreign		110,000
Reserves		400,000
Accumulated net surplus/ (deficit)	167,300	
Total	986,500	986,500

The following transactions took place in the office of the Accountant-General of the State for the year ended December 31, 2018:

Extracted consolidated cashbook for the year 2018

Details	₦' million	₦' million
	Dr.	Cr
Receipts		
Share of Federation Account allocation	324,000	
Value added tax allocation	234,000	
<i>Tax revenue</i> - Personal income tax	185,000	
<i>Non- tax revenue</i>		
- Fees.	35,000	
- Fines.	36,000	
- Penalty	33,000	
- Sales of scraped plant and machinery	1,500	
Investment income	12,000	
Aids and grants	51,800	
	912,300	
Payments:		
Salaries and wages		750,000
Motor vehicles		25,000
Building		23,000
Plant and machinery		15,000
Equipment		7,000

Outstanding liabilities payable from exchange transactions		3,500
Loan repayment- Domestic & interest		13,000
- Foreign & Interest		32,000
Transport and travelling		1,900
Hotel accommodation		2,600
Office consumables		750
Rent expenses		1,200
General repairs and maintenance		800
Utilities		3050
Consultancy		6,700
Other overheads		2,100
Finance charge- insurance		350
Miscellaneous expenses		450
		888,400

The following information is relevant:

- i. Out of the payment for the building, a total sum of ~~₦~~3.5 billion was used to construct event-hall for rental. The project was completed and commissioned during the year.
- ii. The payment for salaries and wages include settlement of outstanding employees benefit and un-remitted deductions while employee salaries and wages bill for the month of December 2018 amounting to ~~₦~~6.5 billion was not yet paid.
- iii. The following information was extracted from the unit in charge of accounting for PPE, 5 sets of HP computers, P1120 2016 model, were received from Koko Computers Ltd to assist the state government to eradicate ghost workers from the payroll. Based on this information, a call was made to three of their computer suppliers to find out the current price of the HP P1120. Two of the suppliers quoted ~~₦~~500,000 each while one quoted ~~₦~~500,500 each.
- iv. The government, during the year received an asset valuation report from estate valuers who were engaged to carry out the valuation of its building (PPE & investment property). The new values of PPE and investment property were put at ~~₦~~240 billion and ~~₦~~40 billion respectively. This valuation report was approved by the State Executive Council.
- v. An item of equipment with a carrying value of ~~₦~~800 million was swapped with another equipment with a fair value of ~~₦~~1.5 billion supplied by one of the contractors. The swapped equipment was acquired by the government five years ago at a cost of ~~₦~~1.8 billion

- vi. An item of plant and machinery with carrying value of ₦3.1billion was scrapped during the year for ₦1.5billion due to non-availability of spare parts. The plant and machinery was bought 3 years ago at a cost of ₦5 billion
- vii. The provision for impairment on long-term receivables is 3% per annum.
- viii. Some of the accounting policies adopted by the government include the following rates:

	%
• Motor vehicle	20
• Building	2
• Furniture	10
• Equipment	15
• Plant and machinery	15
• Investment property	5

All PPE (including PPE acquired during the year) were all issued.

- ix. During the year, one of the contractors took the state government to court for breach of contract. The case was still in court as at the end of the year and from all indications, judgment will eventually be in his favour. The legal adviser estimated the judgment debt to be ₦50 million.
- x. Value of office consumables based on inventory sheet as at December 31, 2018 was ₦550 million
- xi. All intangible assets are amortized at the rate of 20% per annum.
- xii. The prepayment brought forward was in respect of motor vehicle insurance for the year 2018 and ₦235 million was outstanding as at end of 2018.
- xiii. The differed income brought forward in respect of aids and grants was utilised during the year.
- xiv. The following expenses were incurred but not settled as at end of the year.

	₦' million
• Consultancy	150
• Utility	28
• Repairs and maintenance	20

- xv. An extract of the foreign loan amortisation indicates that a total sum of ₦32billion out of which interest was ₦2 billion was paid during the year. Also, domestic loan of ₦13 billion out of which interest was ₦1.billion was paid during the year.
- xvi. Outstanding fines, penalties and fees as at December 31, 2017 were all received during the year.
- xvii. All un-issued furniture and capital grant from Federal Republic of Wazobia brought forward were issued and recognised during the year.

You are required to:

Prepare statement of financial performance and statement of financial position for the year ended December 31, 2018 using vertical format. **(Show all workings)**

SECTION B: YOU ARE REQUIRED TO ANSWER THREE OUT OF FIVE QUESTIONS IN THIS SECTION

QUESTION 2

- a. Mr. A. B. Ajanlekoko held the position of Minister of Finance and Economic Planning. Before his appointment, he was the editor of the award winning television station in the country. He anchored various programmes that have to do with national development, how to curb the wide spread corruption in the nation, youth unemployment, prevention of prevalent kidnappings and economic crimes, women empowerment, inter communal clashes, etc.

Most citizens saw his appointment as putting a square peg in a square hole. The Senate asked him to take a bow during his confirmation screening session at the hallowed chambers. The nation's expectation from him was very high.

On assumption of duty, he insisted that he needed a chartered accountant as his Senior Special Assistant (SSA) on Economic and Development matters. He intended to make the country self sufficient in food production at affordable cost and also make agriculture a source of employment.

You have been appointed as the SSA to the Minister - Economic and Development Matters. Your assignment is to prepare the Medium-Term Expenditure Framework (MTEF) for the Ministry.

You are required:

Explain the **five** contents of the MTEF. (10 marks)

- b. Explain the term "public goods" and **identify** the problems faced by the government when trying to provide the "right" quantity of "public goods". (10 Marks)

(Total 20 Marks)

QUESTION 3

- a. Mallam Aboki retired in February 2018 at the age of 50 years and had a balance of N8,500, 500 in his Retirement Savings Account (RSA) with ABC Pensions. He inquired from you on how he would utilise this balance.

Required:

- i. Calculate the maximum lump sum Mallam Aboki can withdraw from his `RSA balance and the **conditions** to be fulfilled for such withdrawal to be made in line with the provisions of Pensions Reform Act 2014 Part III Section 7(2)

(6 marks)

- ii. Explain the **two** options Mallam Aboki could use to subsequently access the balance in his retirement savings account according to the Act (4marks)

- b. Identify and **explain** positive and negative externalities giving **two** examples of each. (10 marks)

(Total 20 marks)

QUESTION 4

- a. The FAAC Sub-Committee developed a comprehensive and standardised national chart of accounts. The national chart of accounts (NCOA) is an integrated budget and accounting classification system prepared primarily for the implementation of the uniform accounting system that is IPSAS compliant.

In light of the above, **you are required to:**

- i. Explain the term national chart of accounts (NCOA) and **state three** objectives of NCOA (5 Marks)
- ii. Identify the **five** steps for budgeting using national chart of accounts (5 Marks)

- b. Explain briefly the roles of the following agencies in revenue collection in Nigeria:

i. Federal Inland Revenue Service (FIRS) (2½ Marks)

ii. The Nigerian Customs Service (NCS) (2½ Marks)

iii. State Internal Revenue Service (SIRS) (2½ Marks)

iv. Local Government Revenue Authority (LGRA) (2½ Marks)

(Total 20 Marks)

QUESTION 5

- a. The Ministry of Commerce of Obudu State provided the following information about its budgeted and actual overhead costs in respect of year 2018:

Sub Head	Description	Provision	Actual
		N'M	N'M
02	Travel and tour	240	290
03	Utility services	180	160
04	Telephone services	110	140
05	Stationery	510	480
06	Office furniture and maintenance	350	290
07	Maintenance of motor vehicle	470	490
08	Maintenance of capital assets	1,110	940
09	Staff training and development	130	110
10	Miscellaneous expenses	770	740
11	Contribution to foreign bodies	430	420

The following information is also relevant:

- (i) An inflation factor of 10% on overhead cost is to be recognised in the computation of 2019 budget.
- (ii) Increase in activities in 2019 will attract 20% additional overhead cost.

Required:

Prepare 2019 overhead cost budget on incremental system basis (show workings)

(10 Marks)

- b Define fiscal policy and **distinguish** clearly between **two** types of fiscal policies and **explain** the performance of each in the Nigerian economy.

(10 Marks)

(Total 20 Marks)

QUESTION 6

- a. According to IPSAS 25 on Employee Benefit, an entity shall disclose information that enables users of financial statements to evaluate the nature of its defined benefit plans and the financial effect of changes in those plans during the period.

You are required to write briefly on

- i. Distinctions between defined contribution plans and defined benefit plans; (5 marks)
- ii. Qualifying insurance policy (5 Marks)

- b. i. Identify the **four** major categories for each of the federal government expenditure and revenue in Nigeria.
(6 Marks)
- ii. Explain briefly the difference between government purchases and government transfer payments.
(4 Marks)
- (Total 20 Marks)