THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

PUBLIC SECTOR ACCOUNTING AND FINANCE

2019 - Solutions to Pilot Questions - Set 1

Solution1

Eko State Government

Statement of financial performance for the year ended December 31, 2018

	₦' million	₦' million
Revenue		
Share of federation account allocation		324,000
Value added tax allocation		234,000
Tax revenue - Personal income tax		185,000
Non-tax revenue		
- Fees		30,000
- Fines		32,000
- Penalty		27,000
Investment income		12,000
Aids and grants		61,300
Surplus on revaluation of building		40,500
Surplus on swapped equipment		700
Profit on inv. property		1,500
Capital grant		150,000
Total revenue		1,098,000
Expenditure:		
Salaries and wages	711,500	
Transport and travelling	1,900	
Hotel accommodation	2,600	
Office consumables	600	
Rent expenses	1,200	
General repairs and maintenance	820	
Consultancy	1,850	

Utilities	78	
Other overheads	2,100	
Finance charge- insurance	885	
Miscellaneous expenses	450	
Depreciation:		
-Building	-	
-Motor vehicle	22,000	
-Plant and machinery	6,000	
-Equipment	14,880	
-Furniture	12,030	
-Investment property	-	
-Amortisation- intangibles	7,200	
Additional impairment-long term receivable	3,000	
Loan interest	3,000	
Contingent liabilities	50	
Loss on scrapped plant and machinery	1,600	
Total expenditure		793,743
Net surplus for the year		304,257
Deficit b/f		-167,300
Surplus c/f		136,957

Eko State Government

Statement of financial position as at December 31, 2018

Non- current assets	Cost/ Valuation	Accum. Dep/Amort	Carrying value
	₦' million	₦' million	₦' million
Buildings	240,000	-	240,000
Motor vehicle	110,000	56,000	54,000
Furniture	120,300	48,030	72,270
Equipment	99,200	40,880	58,320
Plant and machinery	40,000	18,100	21,900

Investment property	40,000	-	40,000
Intangible assets	36,000	9,200	26,800
Total non- current assets	685,500	172,210	513,290
Current assets			
Long term receivables		194,000	
Inventories			
Office consumables		550	
Cash and its equivalents		25,500	
Investment: treasury bills		600	
Total current assets			220,650
Total assets			733,940
Non- current liabilities			
Long term borrowing- domestic	108,000		
foreign	80,000		
Total non- current liabilities		188,000	
Current liabilities:			
Salaries and wages	6,500		
Consultancy	150		
Utility	28		
Repairs and maintenance	20		
Insurance	235		
Contingent liability	50		
Payable from exchange transactions	2000		
Total current liabilities		8,983	
Total liabilities			(196,983)
Net assets			536,957
Net assets/ equity			
Reserves			400,000
Net surplus			136,957
Total net assets/equity			536,957

Workings

Property, plant and equipment

S/N	Details	Building	Inv. property
		₦‘ million	₦‘ million
i.	Balance b/f	200,000	40,000
	Cash book	23,000	00
	Transfers from building	(3,500)	3,500
	Total	219,500	43,500
	Revaluation		
	Cost at the end of the year	219,500	43,500
	Accumulated depreciation b/f	(20,000)	(5000)
		199,500	38,500
	Revalued amount	240,000	40,000
	Profit on revaluation	40,500	1,500

ii.		Motor vehicle	Furniture
	Balance b/f	85,000	120,000
	Cash book / issues	25,000	300
	Total c/f	110,000	120,300
	Depreciation rate	20%	10%
	Accumulated depreciation b/f	34,000	36,000
	Depreciation charges for the year	22,000	12,030
	Accumulated depreciation c/f	56,000	48,030

iii.		Equipment	Plant and machinery
	Bal. b/f	90,000	30,000
	Cash book	7,000	15,000
	Old value swap/ scrapped plant and machinery	(1,800)	(5000)
	New equipment	1,500	00
	Donation	2,500	00
	Bal C/F	99,200	40,000

Profit on swapped equipment/loss on plant and machinery		
New equipment/Cash book (plant &machinery)	1,500	1,500
Accumulated depreciation		1,900
Old equipment	(800)	
Cost of scrapped plant and machinery	00	(5000)
Profit on swapped equipment/loss on plant and machinery	700	(1,600)
Depreciation rate	15%	15%
Accumulated depreciation B/F.	27,000	14,000
Depreciation of swapped equipment	(1,000)	
Depreciation charges	14,880	6,000
Depreciation on scrapped plant and machinery	00	(1900)
Accumulated depreciation c/f	40,880	18,100

iv. **Inventories-office consumables**

Bal b/f	400
Cash book	750
Bal c/f	(550)
Office consumables expenses	600

Consolidated cash book

Date	Particulars	Dr.	Cr.
		₦	₦
01/01/18	Bal b/f	1,600	
	Receipts		
	Share of federation account allocation	324,000	
	Value added tax allocation	234,000	
	Personal income tax	185,000	
	Fees	35,000	
	Fines	36,000	
	Penalty	33,000	

	Investment income	12,000	
	Aids and grants	51,800	
	Scrapped plant and machinery	1,500	
	Total receipts	913,900	
	Payment		
	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
	Loan repayment - foreign & Interest		32,000
	Transport & travelling		1,900
	Hotel accommodation		2,600
	Office consumables		750
	Rent expenses		1,200
	General repairs and maintenance		800
	Consultancy		6,700
	Utilities		3,050
	Other overheads		2,100
	Finance charge- insurance		350
	Miscellaneous expenses		450
	Total payments		888,400
	Bal. c/f		25,500
	Total	913,900	913,900

Analysis	Consultancy	Utility	Rep and maint.	Insurance	Sal. and wages
	₦' million	₦' million	₦' million	₦' million	₦' million
Payments During the year	6,700	3,050	800	350	750,000

Accrued B/F	-5,000	-3,000	-		-45,000
Prepayment b/f	-	-	-	300	-
	1,700	50	800	650	705,000
Accrued c/f	150	28	20	235	6,500
Amount charged for the year	1,850	78	820	885	711,500

Analysis of receivables	Fine	Penalty	Fees	Aid & grant
	₦	₦	₦	₦
Receipts during the year	36,000	33,000	35,000	51,800
Equipment				2,500
Differed income				7,000
	36,000	33,000	35,000	61,300
Accrued income b/f	-4,000	-6,000	-5,000.	-
Amount recognised as income	32,000	27,000	30,000	61,300

Marking guide

		Marks	Marks
i.	Statement of financial performance		
	Heading	½	
	Calculation of total revenue (13 ticks @ ¼ mark each)	3¼	
	Calculation of total revenue (13 ticks @ ¼ mark each)	5 ¼	
	Calculation of net surplus for the year (1 tick @ ¼ mark each)	¼	
	Calculation of surplus carried forward (3 ticks @ ¼ mark each)	¾	10
ii.	Statement of financial position		
	Heading	½	
	Calculation of total non-current assets (23 ticks @ ¼ mark each)	5 ¾	
	Calculation of total current assets (4 ticks @ ¼ mark each)	1	
	Calculation of total assets (2 ticks @ ¼ mark each)	½	
	Calculation of total non-current liabilities (4 ticks @ ¼ mark each)	1	
	Calculation of total current liabilities (9 ticks @ ¼ mark each)	2¼	

	Calculation of total liabilities (2 ticks @ ¼ mark each)	½	
	Calculation of total net assets (2 ticks @ ¼ mark each)	½	
	Calculation of total net assets/equity (4 ticks @ ¼ mark each)	1	13
iii.	Workings		
	Property, plant and equipment		
	Calculation of cost at the end of the year on buildings and investment property (2 ticks @ ¼ mark each)	½	
	Calculation of accumulated depreciation transferred to revaluation account on buildings and investment property (2 ticks @ ¼ mark each)	½	
	Calculation of revaluation surplus for buildings and investment property (2 ticks @ ¾ mark each)	1½	
	Calculation of cost at the end of the year for motor vehicle and furniture carried forward (2 ticks @ ¼ mark each)	½	
	Calculation of depreciation charges for the year on motor vehicle and furniture carried forward (2 ticks @ ¼ mark each)	½	
	Calculation of accumulated depreciation on motor vehicle and furniture carried forward (2 ticks @ ¼ mark each)	½	
	Calculation of cost at the end of the year on equipment and plant & machinery carried forward (2 ticks @ ¼ mark each)	½	
	Calculation of depreciation charges for the year on equipment and plant & machinery (2 ticks @ ¼ mark each)	½	
	Calculation of accumulated depreciation on equipment and plant & machinery on swapped and scrapped respectively (2 ticks @ ¼ mark each)	½	
	Calculation of profit/(loss) on equipment and plant & machinery on swapped and scrapped respectively (2 ticks @ 1 mark each)	1½	
	Expenses and revenue		
	Calculation of expenses to be charged during the year on consultancy; utility; repairs & maintenance; insurance; and salaries & wages. (5 ticks @ 1 mark each)	1 ¼	
	Calculation of income to be recognised during the year on fine; penalty; fees; and aids & grants. (4 ticks @ ¼ mark each)	1	
	Adjusted cash book		
	Calculation of total receipts (10 ticks @ ¼ mark each)	2½	
	Calculation of total payments (18 ticks @ ¼ mark each)	4½	
	Calculation of closing balance (1 ticks @ ¾ mark each)	¾	17
	Total		40

SOLUTION 2

a. Contents of the medium–term expenditure framework (MTEF) are as follows:

i. A macro–economic framework setting out the three financial years, the underlying assumptions and an evaluation and analysis of the macro – economic.

ii. An expenditure and revenue framework which will set out:

- Estimates of aggregate revenue for the federation for each financial year, based on the pre – determined commodity reference price adopted and tax revenue projections;
- Aggregate expenditure for each of the next three financial years;
- Minimum capital expenditure projection for the federation for each of the next three financial years;
- Aggregate tax expenditure projection for the federation for each of the next three financial years.

iii. A consolidated debt statement indicating and describing the fiscal significance of the debt liability and measures to reduce the liability.

iv. A statement of the nature and fiscal significance of contingent liabilities and quasi – fiscal activities and measures to offset the crystallization of such liabilities.

v. Fiscal strategy document setting out:
- Federal Government's medium – term financial objectives.
- The policies of the Federal Government for the medium term relating to taxation, recurrent expenditure, borrowings, lending and investment and other liabilities;
- The strategies, economic, social and developmental priorities of government for the next three financial years;
- An explanation of the financial objectives, strategic, economic, social and developmental priorities and fiscal measures.

b. A public good is a product that one individual can consume without reducing its availability to another individual, and from which no one is excluded. A public good has two characteristics:

- **Non-rivalry:** This means that when a good is consumed, it doesn't reduce the amount available for others, for example, benefiting from a street light doesn't reduce the light available for others but eating an apple would; and
- **Non-excludability**: This occurs when it is not possible to provide a good without it being possible for others to enjoy. For example, if you erect a dam to stop flooding – you protect everyone in the area (whether they contributed to flooding defences or not).

The problems faced by the government when trying to provide the "right" amount of a "public good" are as follows:

i. **Corruption:** An important underlining factor affecting the production and distribution of services in the developing nations is corruption. Most importantly, the issue of corruption among local authorities and their cronies has often resulted in tribal conflicts and mistrust and has negatively affected the achievement of social services;

ii. **Debt**: It is argued that developing countries are trapped in interest repayments to international financial institutions and the IMF. For instance, IMF conditionalities of reforms and trade liberalisation in developing nations, countries, for instance, Kenya and Zambia are incapable of providing essential services to their citizens, largely due to high interest repayments over the years;

iii. Furthermore, the concept of decentralisation of power and resources has also been a source of governments' lack of incentives to provide public goods in developing countries. Decentralisation in countries where technological, communication and information systems are effective, such as in the developed world, devolving power to lower levels will improve the provision of public goods and services for the well-being of citizens.

iv. Lack of transparent information and inadequate civil participation in development and local policy setting pose serious challenges in developing nations.

Marking guide

		Marks	Marks
a.	Explanation of any five contents of medium-term expenditure framework (MTEF) @ 2 marks each		10
b.	Definition of "public goods"	2	
	Stating the two characteristics of "public goods" @ 1 mark each	2	
	Identification and explanation of any three problems faced by the government when trying to provide the "right" amount of a "public goods" @ 2 marks each	<u>6</u>	<u>10</u>
	Total		<u>20</u>

SOLUTION 3

a. i. Maximum lump sum = 25% of ₦28,500,500
= ₦7,125,125

Conditions to be fulfilled before such withdrawal is made in line with the provisions of Pensions Reform Act 2014 Part III Section 7(2) are:

- Provided that such withdrawal shall only be made after four months of retirement or cessation of employment;
- The employee does not secure another employment; and

- That the emolument left after the lump sum withdrawal shall be sufficient to procure a programmed fund withdrawals or annuity for life in accordance with extant guidelines issued by the Commission.

ii. Two options Mallam Aboki could use to subsequently access the balance in his retirement savings account are as follows:
   - Procure a programmed fund withdrawals; or
   - Procure annuity for life from a life insurance company licensed by the National Insurance Commission with monthly or quarterly payments.

b. An externality is a cost or benefit of an economic activity experienced by an unrelated third party. The external cost or benefit is not reflected in the final cost or benefit of a good or service. Therefore, economists generally view externalities as serious problem that make markets inefficient, leading to market failures. Externalities occur because economic agents have effects on third parties that are not part of market transactions. Examples include but not limited to factories emitting smoke, jet planes waking up people, loudspeakers generating noise, etc. These activities have a direct effect on the well being of others that are outside direct market channels.

Positive Externalities- These are gains or benefits realised from the activities of another economic unit without the externality generator being compensated. For instance, construction of an expressway will create new market to the villages around the corridor. Positive externalities will lead to increase in production and consumption of goods and services.

Examples of positive externalities include but not limited to the following:

i. Infrastructure development: Building a subway station in a remote neighborhood may benefit real estate agents who manage the properties in the area. Real estate prices would likely increase due to better accessibility, and the agents would be able to earn higher commissions; and
ii. R&D activities: A company that discovers a new technology as a result of the research and development (R&D) activities creates benefits that help the society as a whole.

Negative Externalities- These refer to the losses suffered by an economic entity because of the activities of another economic unit. For example, an airplane flying or train moving will evoke a great deal of noise that will disturb the peace of the environment.

Examples of negative externalities include but not limited to the following:

i. Air pollution: A factory burns fossil fuels to produce goods. The people living in the neighbourhood and the workers in the factory suffer from the deteriorating air quality;
ii. Water pollution: A tanker spills oil, destroying the wildlife in the sea and affecting the people living in coastal areas; and

iii. Noise pollution: People living near a large airport suffer from noise levels.

Marking guide

		Marks	Marks
a.i.	Calculation of the maximum lump sum Mallam Aboki can withdraw from his `RSA balance	1½	
	Stating the three conditions to be fulfilled before such a withdrawal is made in line with the provisions of Pensions Reform Act 2014 (Part III Section 7(2)) @ 1½ marks each	4½	
ii.	Explanations of the two options Mallam Aboki could use to subsequently access the balance in his retirement savings account according to the provisions of the Act. @ 2 marks each	4	10
b.	Definitions of externalities	2	
	Explanations of positive and negative externalities @ 1 mark each	2	
	Giving two (2) examples each of 'positive' and 'negative' externalities. @ 1½ marks each	6	10
	Total		20

SOLUTION 4

a i. **Definitions**

The national *chart of accounts (NCOA*) may be defined as a complete list of budget and accounting items where each item is uniquely represented by a code and grouped into tables of related data for the purposes of tracking, managing and reporting budgetary, and accounting items in an orderly, efficient and transparent manner.

It is also a created list of codes, which can be represented by numeric, alphabetic, or alphanumeric symbols. This is to enable the entity to define each item of revenue, expenditure, asset, liability, location and other parameters in order to give interested parties a better understanding of the entity.

Objectives

These include the following but not limited to:

- To give ample opportunity for comparability;

- To unify and harmonise coding, budgeting, accounting and reporting system;
- To bring about global interpretation of Nigeria GPFS;
- To ensure consistent national financial reporting;
- To enhance improvement in transparency and accountability; and
- To facilitate ease of computerization of accounting system.

ii. The **five** steps for budgeting, using national chart of accounts (NCOA) are as follows:

- Identify the government institution (cost and revenue centre) from the hierarchy of administrative list and codes provided in the chart of accounts;
- Identify the economic items that would be executed during the fiscal year;
- Identify the functions intended to be performed by government institutions (revenue and cost centre);
- Identify the programmes intended to be carried out by the government institution;
- Determine the sources of financing the budgeted amount for each budget line; and
- Identify the planned location for the economic transactions or government institution

b. In line with the federal structure of the Nigerian State, tax administration in the country is multi-tiered:

i. The Federal Inland Revenue Service (FIRS) is the only Federal Government institution saddled with the primary responsibility of collection and payment of Federal Government taxes across Nigeria. FIRS is responsible for assessing, collecting and accounting for tax and other revenues accruing to the Federal Government;

ii. The Nigerian Customs Services (NCS) is saddled with the responsibilities of revenue collection, accounting for same and anti-smuggling activities;

iii. The States Internal Revenue Service are responsible for assessing, collecting and accounting for tax and other revenues accruing to the state governments; and

iv. Local Government Revenue Authority performs the functions of assessing, collecting and accounting for tax and other revenues accruing to the local government.

Marking guide

		Marks	Marks
a.	Explanation of the term called national chart of accounts (NCOA)	2	

	Stating any **three** objectives of national chart of accounts any two methods of measurement @ 1 mark each	3	
	Identifying any the **five** steps for budgeting with national chart of accounts @ 1 mark each	5	10
b.	Explanation of the role(s) of Federal Inland Revenue Service (FIRS) ;The Nigerian Customs Service (NCS); State Internal Revenue Service (SIRS); and Local Government Revenue Authorities (LGRA) @ 2½ marks each		10
	Total		20

SOLUTION 5

a. Obudu State Ministry of Commerce

Overhead cost budget for year 2019

Sub-Head	Description	Notes	Amount
			₦'M
02	Travel and tours	2	382.80
03	Utility services	3	211.20
04	Telephone	4	184.80
05	Stationery	5	633.60
06	Office furniture and maintenance	6	382.80
07	Maintenance of motor vehicle	7	646.60
08	Maintenance of capital assets	8	1,240.80
09	Staff training and development	10	145.20
10	Miscellaneous expenses	11	976.80
11	Contribution to foreign bodies	12	554.40
	Total budget cost		5,359.00

Workings

	₦'M	₦'M
Travel and tours	(290 x 110% x 120%)	382.80
Utility services	(160 x 110% x 120%)	211.20
Telephone services	(140 x 110% x 120%)	184.80

Stationary	(480 x 110% x 120%)	633.60
Office furniture maintenance	(290 x 110% x 120%)	382.80
Maintenance of capital vehicle	(490 x 110% x 120%)	646.80
Maintenance of capital assets	(940 x 110% x 120%)	1,240.80
Staff training and development	(110 x 110% x 120%)	145.20
Miscellaneous	(740 x 110% x 120%)	976.80
Contribution to foreign bodies	(420 x 110% x 120%)	554.40

b. Fiscal policy is the use of taxation and government expenditure to regulate economic activities. Fiscal policy can be employed to achieve macroeconomic objectives of full employment, economic growth, external balance, price stability, and equitable distribution of income and wealth. It is the means by which a government adjusts its spending levels and tax rates to monitor and influence a nation's economy.

Types of fiscal policy

i. Expansionary fiscal policy: This entails a reduction in taxes or increase in government spending to induce increase in aggregate consumption, demand, investment and production levels. It is typically deployed to stimulate growth when the economy is operating below its full employment capacity. It is facilitated by an expansionary budget when government expenditure exceeds its revenue.

ii. Contractionary fiscal policy: This entails an increase in taxes or decrease in government expenditure to moderate aggregate consumption, demand, investment and production levels. It is typically deployed when the economy is operating above its full employment capacity, overheating and faced with rising inflation. It is facilitated by a contractionary budget when government revenue exceeds its expenditure.

Marking guide

		Marks	Marks
a.	Heading	1	
	Format @ 2 marks each	2	
	Correct calculation of the ten sub-heads of overhead cost @ ½ mark each	5	
	Correct calculation the total overhead cost	2	10
b.	Definition of fiscal policy	4	

	Identification of the two types of fiscal policy @ 1½ mark each	2	
	Explanation of the two types of fiscal policy @ 1½ mark each	2	
	Explanation of the performance of the two types of fiscal policy o the Nigerian economy @ 1½ mark each	2	10
	Total		20

SOLUTION 6

a.i. **Definitions**

- **Defined contribution plans** are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal constructive obligation to pay further contributions if the fund does not hold sufficient asset to pay all employee benefits relating to employee service in the current and prior periods.
- **Defined benefit plans** are post-employment benefits plans other than defined contribution plans.

Distinctions between defined contribution plans and defined benefit plans

- Post-employment benefits include:
  - Retirement benefits, such as pensions; and
  - Other post-employment benefits, such as post-employment life insurance and post-employment medical care.
- Under defined contribution plans:
  - The entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund; and
  - In consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall on the employee.
- Under defined benefit plans:
  - The entity's obligation is to provide the agreed benefits to current and former employees; and
  - Actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the entity. If actuarial or investment experience are worse than expected, the entity's obligation may be increased.

ii. A **qualifying insurance policy** is an insurance policy issued by an insurer that is not a related party (as defined in IPSAS 20) of the reporting entity, if the proceeds of the policy:

- Can be used only to pay or fund employee benefits under a defined benefit plan; and
- Are not available to the reporting entity's own creditors (even in bankruptcy) and cannot be paid to the reporting entity, unless either:
    - The proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefits obligations; and
    - The proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

b. i. The major categories of the federal government expenditure and revenue in Nigeria are:

- **Recurrent revenues**: These are the amount of revenue collected by the government agencies from their usual regular sources of revenue. Examples are taxes, rates, rents, fees, fines, etc.
- **Capital receipts**: These are the proposed government revenue earned from its capital projects or investments. Examples are revenues from innovations and inventions.
- **Recurrent expenditures**: These are expenses carried out by the government year by year. These are expenses that continue to recur such as wages and salaries that are paid to civil servants every month in every financial year.
- **Capital expenditures**: These are proposed expenditures of a government on capital-intensive projects that will last for a long time. Good examples of capital expenditures are roads, dams, seaport, hospitals, airports, etc.

ii. **Differences between government purchases and government transfer payments**

Government purchases: These are expenditures and gross investment by federal, state and local governments, excluding transfer payments and interest on debt. It is also known as, purchases made by the government from the private sector.

Transfer payments: These are payments considered to be non-exhaustive because they do not directly absorb resources or create output. Examples of transfer payments include financial aid, social security, and subsidies for certain businesses.

Marking guide

		Marks	Marks
a.i.	Explanation of defined contribution plans,	1	

	Explanation of defined benefit plans	1	
	Distinction between defined contribution plans, defined benefit plans @ 1½ marks each	3	
ii.	Explanation of qualifying insurance policy	5	10
b.i.	Identification of the four major categories of the federal government expenditure and revenue in Nigeria @ 1½ mark each	6	
ii.	Explanation of the differences between government purchases and government transfer payments	4	10
	Total		20