BOWEN UNIVERSITY IWO

COLLEGE OF SOCIAL AND MANAGEMENT SCIENCES

ACCOUNTING AND FINANCE PROGRAMME

PUBLIC SECTOR ACCOUNTING AND FINANCE 1

ACC 325

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Accounting and Finance Programme
Previously, we have looked at introduction to Public Sector Accounting and the regulatory and constitutional framework of Public Sector Accounting. In this module, the various sources of Government revenue will be identified and studied.

**OBJECTIVES**
At the end of this study, you should be able to:

1. Identify the sources and classifications of Government Revenue
2. Identify the Federation Account revenue heads
3. Understand the revenue allocation formula.
4. Know the composition and functions of the Federation Accounts Allocation Committee (FAAC).
5. Identify the sources of Revenue Payable to the Federation Account and the Consolidated Revenue Fund, respectively.

**Sources and Classifications of Government Revenue**
The Federal Government derives its revenue from different sources. The Federal Government Revenues are kept in the Consolidated Revenue Fund. However, before the 1989 budget, the Federal Government revenue sources were classified into the following Heads:

Head 1: Indirect Taxes.
Head 2: Direct Taxes.
Head 3: Mining.
Head 6: Direct Allocation.
Head 7: Direct Taxes (PAYE).
Head 8: Licences and Land Revenue.
Head 9: Mining (Solid Minerals).
Head 10: Fees.
Head 11: Earnings and Sales.
Head 12: Rent of Government Property.
Head 13: Interests and Repayments (General).
Head 14: Interests and Repayments (State Government).
Head 15: Reimbursements.
Head 16: Armed Forces.
Head 17: Miscellaneous.

The 1989 Budget classified the Federal Government revenue sources into two groups:

(a) Federation Account Revenue Heads, and

(b) Federal Government Account Revenue Heads. The 1989 classification was modified in 1994 fiscal year, as follows:

(a) Federation Account Revenue Heads;

(b) Value-Added Tax (VAT), and

(c) Federal Government Account Revenue Heads.

### 3.2 Federation Account Revenue Heads

The Federation Account was established by Section 162 of the 1999 Constitution of the Federal Republic of Nigeria. The Federation Account is one into which is paid all revenue collected by the Government of the Federation, except the proceeds from the PAYE of the personnel of the Armed Forces of the Federation, the Nigeria Police Force, Foreign Service Officers and Residents of the Federal Capital Territory, Abuja.

**Sources of Revenue Payable to the Federation Account - Heads 1 to 3**

These are:
(a) Head 1- Direct Taxes: These are payable by the individuals and firms such as company income tax, petroleum profit tax, capital gain tax, back duty assessment, and personal income tax of the foreigners residing in Nigeria.

(b) Head 2- Indirect Taxes: These are taxes raised from goods and services in the form of custom and excise duties, forfeiture penalties, VAT, etc.

(c) Head 3 - Mining: These are oil pipeline licence fees, rents of mining rights, mining fees, royalties on minerals, NNPC earnings from direct sales, penalties for gas flared, and rent of oil well.

EXISTING REVENUE ALLOCATION FORMULAR

<table>
<thead>
<tr>
<th>TIER OF GOVERNMENT</th>
<th>EXISTING FROMULAR FROM 2002 (%)</th>
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<tbody>
<tr>
<td>Federal</td>
<td>52.68</td>
</tr>
<tr>
<td>State</td>
<td>26.72</td>
</tr>
<tr>
<td>Local</td>
<td>20.60</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
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NOTES:
1. 13% of revenue derived from oil sources goes to the States from which it is obtained, in consonance with the principle of derivation.

2. 7% and 4% of the gross revenue in the Federation Account are allocated to the Customs Service and Federal Inland Revenue Services, respectively.

3. The rates stated above are "first line charges." That is, 13% derivation source is adjusted (deducted) in the oil sector revenue received from the total oil
proceeds; 11% (7% plus 4%) of other revenue receipts are taken out of the non-oil collections.

4. Whatever remains in the Federation Account distributable pool is shared between the three tiers of Government.

5. The 26.72% allocation to the 36 States is distributable, net of the adjustments in the earlier three notes or bullets. Abuja is considered a State, to make 37 'States which will share 26.72%.

6. The 20.60% of the Local Government allocation from the next balance is shared between the 774 Local Governments in Nigeria.

7. The 26.72% allocation to the 36 States inclusive of Abuja treated as a 'State' for this purpose, is redistributed, using the following criteria:

<table>
<thead>
<tr>
<th>Equality of States</th>
<th>40%</th>
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<tbody>
<tr>
<td>Population</td>
<td>30%</td>
</tr>
<tr>
<td>Social Development</td>
<td>10%</td>
</tr>
<tr>
<td>Internally Generated Revenue Effort</td>
<td>10%</td>
</tr>
<tr>
<td>Land Mass</td>
<td>10%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>

**Federal Government Account or Consolidated Revenue Fund**

The Consolidated Revenue Fund (CRF) was established by Section 80 of the Constitution of the Federal Republic of Nigeria, 1999. Except those revenue items which are specifically designated to other funds, all others shall be paid into the Consolidated Revenue Fund.
CONSOLIDATED REVENUE FUND
Head 6: Share from Federation Account
Head 7: Direct Taxes (PAYE)
Head 8: Licences and Internal Revenue
Head 9: Mining (Solid Minerals)
Head 10: Fees
Head 11: Earnings and Sales
Head 12: Rent of Government
Head 13: Interests and General Repayments
Head 14: Interests and Repayments
Head 15: Armed Forces
Head 16: Reimbursements
Head 17: Miscellaneous

Various Sources of Revenue Payable To CRF
Analysis of various sources of income is given below:
(a) Head 6-Direct allocation from the Federation Account at the prevailing rate.

(b) Head 7-Direct Taxes: These include PAYE of the Armed Forces and Police Personnel, Foreign Service Officers and Residents of the Federal Capital Territory, Abuja.
(c) Head 8-Licence & Internal Revenue: These are realized from the issues of licences, e.g. arms and ammunition licence fees, goldsmith licence fees, radio & T.V Licence fees, gold dealer's licence fees.
(d) Head 9-Mining: These include mining fees, rent of crown lands, royalties on gold, tin, iron ore, and coal mines.
(e) Head 10-Fees: They are fees received on services rendered by Government officials, e.g., court fees, court fines and medical fees.

(f) Head 11-Earnings and Sales: Earnings and sales are derived from the use and subsequent disposal of Government property, e.g. sales of stores, publications and stamps, commission on money order and poundage on postal orders.

(g) Head 12-Rent of Government Property: The incomes include rent on Government quarters, land and buildings.

(h) Head 13-Interest & Repayments (General): These are interest and repayment of loans granted to individuals by the Government, Corporations and Government companies. An example is the repayment of motor vehicle loans.

(i) Head 14-Interest & Repayments (State): They are interest and repayment of loans granted to the State Governments.

(j) Head 15-Armed Forces: The sales of Armed Forces' property such as old vehicles and stores constitute revenue.

(k) Head 16-Reimbursements: These are refunds for services rendered to the State and Local Government Councils, Public Corporations and other Statutory Bodies by the Federal Government officers. Examples are reimbursements of audit fees and refunds of overpayments made to Government workers.

(l) Head 17-Miscellaneous: These are other sources of revenue, apart from those stated above. Examples are overpayments refunded, lapsed deposits.

All the revenues discussed above are paid into the Consolidated Revenue Fund.

**Charges to the Consolidated Revenue Fund**

These are expenditure items chargeable to the Consolidated Revenue Fund. The charges to the Consolidated Revenue Fund are grouped as follows:

(1) All Recurrent Expenditure Heads in the approved estimates, e.g. personnel cost, overhead cost and servicing of national debts.
(2) Salaries and Consolidated Allowances of Statutory Officers: These are expenditure chargeable directly to the Consolidated Revenue Fund, irrespective of budget approval. Statutory Officers include:
(a) Commissioners of the following Bodies:
(b) Police Service Commission.
(c) Public Complaints Commission
(d) Public Service Commission
(e) Nigerian Law Reform Commission
(f) Independent National Electoral Commission.
(3) Auditor-General for the Federation.
(4) President and Justices of the Federal Court of Appeal
(5) Chief Judge and Judges of the Federal High Court
(6) Chief Justice and Justices of the Supreme Court.
(7) Pension and Gratuity. These are the entitlements of both statutory and non-statutory officers, including members of the Armed Forces.

**Development Fund**

The existence of the Development Fund was solidified by the 1999 Constitution of the Federal Republic of Nigeria, although created earlier by Section 25 the Finance (Control & Management) Act of 1958. The Fund is established for the purpose of capital development projects. The sources of money accruing to the Development Fund could be divided into four, viz:
(a) Contribution from the Consolidated Revenue Fund: These are yearly transfers of money from the Consolidated Revenue Fund, in the Federal Government's wisdom, notwithstanding that the Constitution does not expressly state this.
(b) External Grants: These are usually received from foreign countries and non-financial institutions.
(c) External Loans: These may come from such foreign bodies as the International Monetary fund (IMF).

(d) Internal Loans: These are loans raised and retired within the country. They may be long-term loans, raised through development stocks, or short-term loans through Treasury Certificates, (which have a life span of two years,) and Treasury Bills which mature in 91 days.

**Charges from the Development Fund**

The charges from the development fund may also be categorized into four main classes, thus:

(a) Summary of Capital Expenditure Payments: This is expenditure incurred for the provision and maintenance of infrastructural amenities such as the construction of bridges and dams.

(b) General Administration: These are expenditure items made for the provision and maintenance of Army Barracks/Police Stations, Staff Houses, Motor Vehicles and Hospitals.

(c) External Financial Obligations: They are disbursements made for expenditure incurred to provide financial assistance to countries which are in need. The relief may be in form of donations, grants and aids, to neighbouring countries.

(d) Loans made to State Governments in Nigeria: There are different types of loans which the Federal Government grants to the States, for developmental purposes.
Furthermore, in August 2015 in consonance with earlier programmes on Treasury Single Account. TSA and the 1999 Constitution, President Muhammadu Buhari gave a directive that all government revenues should be remitted into a Treasury Single Account (CBN 2015). Thus, on 7th August, 2015, the Head of Service issued the circular titled "Re-Introduction of TSA (e-Collection of Government receipts) in order to fully complied with sections 80 and 162 of the Constitution (as amended). TSA is a unified structure of government bank accounts that gives a consolidated view of government cash resources. Based on the principle of unity of cash and the unity of treasury, a TSA is a bank account or a set of linked accounts through which the government transacts all its receipts and payments

REFERENCES/FURTHER READING


Dr Killian Ogiedu (FCA) Department of Accounting, University of Benin. Public Sector Accounting and Finance course guide for National Open University.