



**NATIONAL OPEN UNIVERSITY OF NIGERIA**  
**14/16 AHMADU BELLO WAY, VICTORIA ISLAND, LAGOS**  
**SCHOOL OF MANAGEMENT SCIENCES**  
**OCTOBER 2013 EXAMINATION**

**Course Code:** BHM724

**Credit Unit:** 3

**Course Title:** Financial Accounting

**Time Allowed:** 2 1/2 Hours

**Instructions:** 1. Attempt question Number one (1) and any other two (2) questions.

2. Question number 1 carries 30 marks, while the other questions carry 20 marks each

3. Present all your points in coherent and orderly manner

1. The financial statements of Synthesis Limited, a trading company, are as follows:

**Synthesis Limited**  
**Trading and Profit and Loss Account for the Year Ended 31**  
**December, 2007**

	<b>2007</b>		<b>2006</b>
	<b>N000</b>	<b>N000</b>	<b>N000</b>
	<b>N000</b>		
Sales		1,840	
1,444			
Less: Cost of sales			
Opening stock	116		90
Purchases	1,388		1,061
Warehouses expenses		<u>64</u>	
<u>48</u>			
	1,568		1,199
Closing stock		<u>157</u>	<u>116</u>
	<u>1,411</u>		<u>1,083</u>
Gross profit		429	
361			

Less: Expenses

Salaries and expenses on selling	78		
72			
Salaries and wages	56		
50			
Rent and rates	25		24
Bad and doubtful debts	6		
8			
Depreciation	44		
32			
Interest on Mortgage Loan	8		
10			
Power and lighting	17		
15			
General expenses	72		
61			
Directors' fees	34		24
Audit fees	<u>7</u>		<u>7</u>
	347		303
Net profit	82		58

### **Appropriations**

Provision for taxation	18		12
Transfer to general reserves	10		8
Dividend payable	<u>30</u>		<u>20</u>
	58		<u>40</u>
Retained in the profit and loss account	<u>24</u>		<u>18</u>

### **Balance Sheet as at 31 December, 2007**

#### **Fixed Assets (less depreciation)**

Land and buildings	83		60
Plant and machinery	240		160
Motor vehicles	<u>40</u>		<u>40</u>
Total fixed assets	<u>363</u>		<u>260</u>

#### **Current Assets**

Work in progress	67		46
Stock (finished goods)	90		70
Debtors (less doubtful debts)	110		80
Bank cash	<u>20</u>		<u>30</u>
	<u>287</u>		<u>226</u>

Less:

**Current Liabilities**

Creditors	45		60	
Bank overdraft	52		26	
Dividend payable		30		20
Taxation	<u>18</u>		<u>12</u>	
		<u>145</u>		<u>118</u>
Net working capital		<u>142</u>		<u>108</u>
Net assets		<u>505</u>		<u>368</u>

**Financed by equity funds:**

Issued / paid up capital	300		200	
Capital reserves	23		-	
General reserves	60		50	
Profit and loss	<u>42</u>		<u>18</u>	
	425		268	
10 percent mortgage loan		<u>80</u>		<u>100</u>
	<u>505</u>		<u>368</u>	

You are required to compute the following financial ratios for 2006 and 2007, for comparative purposes:

- i) Gross profit margin
- ii) Net profit margin
- iii) Return on Capital Employed
- iv) Current ratio
- v) Acid test ratio
- vi) Debt to total assets
- vii) Total asset turnover
- viii) Stock turnover
- ix) Sales to debtors
- x) Average collection period

Assume that the shares have a nominal value of N1.00 each and that the shares are currently quoted in the stock market at a price of N1.50. The same share was sold at a price of N1.45 just after the accounts were published the previous year.  
(25 marks)

2. (a) Discuss five accounting concepts.  
(10 marks)

(b) Tunde and Haruna, being partners in business, share profits and losses in the ratio of 60:40. The partners agreed to admit Eke to a 25% interest. What is the new profit sharing ratio of the partners? (5 marks)

3. The following are extracted from the trial balance of Habbib Nigeria Limited, a manufacturing concern, in respect of the year ended 30<sup>th</sup> September, 2008:

	N
Opening stock:	
Raw materials	12,500
Work-in-progress	8,600
Finished goods	14,800
Purchase of raw materials	68,200
Carriage inwards	3,410
Factory wages	18,390
Rent of factory	4,800
Factory general expenses	8,360
Salaries of factory supervisors	8,740
Salaries of salesmen and office staff	22,570
Rent of office	5,400
Insurance of factory equipment	2,840
Bad debts	960
Office general expenses	12,930
Depreciation:	
Factory equipment	16,280
Office and distribution equipment	14,880
Sales less returns	215,000
Power and lighting (factory)	5,610
Power and lighting (general)	3,200

Closing stocks were valued at the following amounts at year end:

Raw materials	14,480
Work-in-progress	10,250
Finished goods	18,390

Work-in-progress is normally valued in this firm at prime cost plus a portion of factory overheads.

**Required:**

Prepare the manufacturing, trading, and profit and loss accounts as at end of year.

(15 marks)

4. (a) Why would a sole proprietor be interested in having an idea of profits earned?

(5

marks)

(b) What are the tax implications for a sole proprietor?  
(4 marks)

(c) Explain 'contra entry'.  
(3 marks)

(d) Explain the Imprest system?  
(3 marks)

5. (a) What is 'goodwill'?  
(3 marks)

(b) The estimated future accrued profits of the partnership (less partners'

remuneration of N25,000) is N75,000. If the yield at 10% per annum is expected

and the value of the tangible assets is N500,000, what is the value of the goodwill?

(5

marks)

(c) Discuss the features of non-profit organizations.  
(7 marks)

6. (a) What is 'financial statement'.  
(3 marks)

(b) Discuss the main components of the financial statement.  
(9 marks)

(c) Explain the double entry system of recording transactions.  
(3 marks)