



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

Course Code: BHM 724 Credit Unit: 3

Course Title: Financial Accounting

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 3 questions carry 15 marks each.

3. Present all your points in coherent and orderly

manner

1. The financial statements of ADOBE Trading Company Limited are as follows:

ADOBE Trading Company Limited
Trading and Profit and Loss Account for the Year Ended 31 December, 2007

	2007		2006
	N000	N000	N000
Sales		1,840	1,444
Less: Cost of sales			
Opening stock	116		90
Purchases	1,388		1,061
Warehouses expenses		64	
48			
	1,568		1,199
Closing stock		157	116
	1,411		1,083
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	7		7
			347
303			
Net profit	82		58
Appropriations			
Provision for taxation	18		12
Transfer to general reserves		10	8
Dividend payable		30	20
	58		40
Retained in the profit and loss account	24		18

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		40
Stock (finished goods)	90		70
Debtors (less doubtful debts)		110	
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	
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>
	<u>425</u>		<u>268</u>
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) Enumerate and explain five accounting concepts. (10 marks)

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

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

(b) Name and discuss the main components of the financial statement. (9 marks)

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

4. The following are extracted from the trial balance of Daveco Nigeria Limited, a manufacturing concern, in respect of the year ended 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)

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) 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) What do you understand by the Imprest system? (3 marks)

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