



NATIONAL OPEN UNIVERSITY OF NIGERIA
14-16 AHMADU BELLO WAY, VICTORIA ISLAND LAGOS
MARCH/APRIL 2016 EXAMINATION
SCHOOL OF MANAGEMENT SCIENCES

COURSE CODE: ACC316

CREDIT UNIT: 3

COURSE TITLE: ANALYSIS OF FINANCIAL STATEMENT

TIME ALLOWED: 2 Hours 30 Minutes

Instruction: 1. Attempt question Number one (1) and any other three (3).

2. Question number 1 is compulsory and carries 25 marks, while the other questions carry 15 marks each.

3. Present all your points in coherent and orderly manner.

1. (I) Discuss financial statement as a tool for management decisions.

15 marks

(II) Using the financial statement below, calculate the following ratios and express what each indicates: Acid Test ratio, Inventory turnover, Total assets turnover, Times interest earned and Current ratio. 10 marks

Total = 25 marks

Osmond Ltd -Balance Sheet as at December 31, 2012

Assets	N	Liabilities	N
Cash	70,000	Accounts payable	150,000
Marketable securities	30,000	Note payable to bank (8%)	200,000
Accounts receivable, net	450,000	Accruals	20,000
Inventories	<u>350,000</u>	Income tax payable	<u>80,000</u>
Total current assets	900,000	Total current liabilities	450,000
		Mortgage Bonds (6%)	150,000

Gross plant & equipment	2,100,000	Debenture (7%)	<u>400,000</u>
Allowance for depreciation	<u>(500,000)</u>	Total liabilities	1,000,000
Net plant and equipment	1,600,000		

Shareholder's equity

Ordinary Shares	500,000		
Retained earnings	<u>1,000,000</u>		
Shareholder's equity	<u>1,500,000</u>		
Total assets	2,500,000	Liabilities plus equity	<u>2,500,000</u>

The annual sinking fund contribution is N25, 000.00

Osmond Ltd –Income Statement for the year ended December 31, 2012.

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	N	N	N
Net Sales			5,400,000
Cost of goods sold			<u>4,400,000</u>
Gross Margin on sales			1,000,000
Operating expenses:			
Selling	400,000		
General and Administrative	130,000		
Lease payment	<u>20,000</u>		
Total operating expenses			<u>550,000</u>
1. Operating income			450,000
Other revenues- Interest on Marketable Securities + royalties			<u>3,000</u>
Operating income plus other revenues			453,000
Less other expenses:			
Interest on bank note	16,000		

Interest on mortgage	9,000	
Interest on debentures	<u>28,000</u>	
Total interest		<u>53,000</u>
Net income before taxes	400,000	
Income taxes (at 50%)		<u>200,000</u>
Net after tax income available to ord. s/holders (net profit)	<u>200,000</u>	
Dividends		30,000
Increase in retained earnings		<u>170,000</u>

(25 marks)

2. (A) Define liquidity ratio.

(B) List the different types of liquidity ratios and their role in financial decision.

(15 marks)

3 Discuss the extent of 'control' in production process of an enterprise.

(15 marks)

4. Explain activity ratio of an enterprise and identify different types of activity ratios used in an organization. **(15 marks)**

5. (A) what is a conceptual framework?

(B)State the objectives of financial statements in an enterprise. **(15 marks)**

6. (A) Identify different types of leverage.

(B) Assess debt ratios implications in a business enterprise. **(15 marks)**