



NATIONAL OPEN UNIVERSITY OF NIGERIA

Plot 91, Cadastral Zone, Nnamdi Azikiwe Express Way,

Faculty of Management Sciences

Department of Financial Studies,

Jabi-Abuja.

JULY 2017 Examinations

Course Code: ACC316

Course Title: Analysis of Financial Statement

Time Allowed: 2 Hours

Credit Unit: 2

Instructions: 1. *Attempt Question 1 and any other two (2) Questions*

2. *Question 1 is compulsory and carries 30 marks while the other 2 Questions carry 20 marks each.*

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

1. EUA Company Limited has presented the following Financial Statements for 2010 year of operation.

EUA Company Limited

Statement of Financial Position as at December 31st, 2010

| Assets | ₦ | Liabilities | ₦ |
|-----------------------------|---------|----------------------------------|---|
| Cash | | Accounts Payable | |
| 70,000 | | 150,000 | |
| Marketable Securities | 30,000 | Note payable to bank (8%) | |
| Accounts receivable, net | 450,000 | 200,000 | |
| Inventories | | Accruals | |
| 350,000 | | 20,000 | |
| <i>Total current assets</i> | | Income tax payable | |
| 900,000 | | 80,000 | |
| | | <i>Total current liabilities</i> | |
| | | 450,000 | |
| Gross plant and equipment | | Mortgage Bonds (6%) | |
| 2,100,000 | | 150,000 | |
| Allowance for depreciation | | | |
| (500,000) | | Debenture (7%) | |
| Net plant and equipment | | 400,000 | |
| 1,600,000 | | <i>Total liabilities</i> | |
| | | 1,000,000 | |
| | | Shareholder Equity: | |
| | | Ordinary Shares | |
| <i>Total assets</i> | | 500,000 | |
| 2,500,000 | | Retain earnings | |
| | | 1,000,000 | |

| | |
|--|---|
| The annual sinking fund contribution is ₦25,000 | Shareholder's equity 1,500,000 Liabilities plus equity 2,500,000 |
|--|---|

Income Statement for the year ended December 31st, 2010

| | ₦ | ₦ |
|---|---------|-----------|
| Net Sales | | 5,400.000 |
| Cost of goods sold | | 4,400.00 |
| Operating expense: | | 1,000.000 |
| Selling | 400,000 | |
| General and Administrative | 130,000 | |
| Lease payment | 20,000 | |
| Total operating expenses | | 550,000 |
| Operating income | | 450,000 |
| Other revenues-interest on Marketable Securities + royalties | | 3,000 |
| Operating income plus other revenues | | 453,000 |
| Less other expenses: | | |
| Interest on bank note | 16,000 | |
| Interest on mortgage | 9,000 | |
| Interest on debentures | 28,000 | |
| Total interest | | 53,000 |
| Net income before taxes | | 400,000 |
| Income taxes (at 50%) | | 200,000 |
| <i>Net after tax income available to ordinary shareholders (net profit)</i> | | 200,000 |
| Dividends | | 30,000 |
| Increase in retained earnings | | 170,000 |

You are required to calculate the following ratios:

- a) Liquidity : 1) Current ratio
2) Quick ratio
- b) Activity : 3) Inventory turnover
4) Fixed Assets turnover
5) Total Assets turnover
- c) Profitability: 6) Profit Margin on sales %
7) Net operating margin %
- d) Investment: 8) Return on Net worth %

Each of the 8 ratios carries three marks = 24

1 mark bonus for presentation = 1

Total=25 marks

2) a) Define accounting policies.

5 marks

b) Highlight the significant accounting policies that have to be stated in the financial statements

15 marks

- 3) List and explain the qualitative characteristics of financial statements in accordance with the Framework.

20 marks

4) The income statement for the year ended 31st December, 2009 showed that a trading stores made a profit of N18,000,000. The bank balance had reduced from N10,000,000 at the beginning of the year to N3,000,000 at the 31st December, 2009. By this adverse situation, the entrepreneur requested the Financial Manager for an explanation of the reduction in the cash balance. The analysis of cash receipts and payments in the year is summarized as cash movement thus:

| | | |
|---|---------|----------------|
| <i>Cash Receipt:</i> | N'000 | N'000 |
| Cash receipts from sales and debtors | | 145,000 |
| Loan raised for expansion | | 20,000 |
| <i>Cash payment:</i> | | |
| Purchases of goods and payment to credits | 109,000 | |
| Payment of wages and salaries | 10,000 | |
| Payment of interest and bank charges | 1,000 | |
| Expenditure on extension of premises | 30,000 | |
| Payment for New fittings | 5,000 | |
| Cash withdrawn by the entrepreneur | 10,000 | |
| Payment of miscellaneous expenses | 7,000 | (172,000) |
| <i>Excess of Cash Payment over cash receipts in the year</i> | | (7,000) |

From the above presentation, prepare a cash-flow statement for the year ended 31st December, 2009.

5. a) Explain the main components of the financial statement.
b) State the elements of an income statement.

10 marks

10 marks