



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

Course Code: ENT 415

Credit

Unit: 2 **Course Title:** Analysis of Financial Statements

Time Allowed: 2 ¹/₂

Instructions: 1. Attempt question number one (1) and any other two (2).

marks
each.

2. Question number 1 is compulsory and carries 30
while the other 2 questions carry 20 marks

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

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

KOLAJO Trading Company Limited
Trading and Profit and Loss Account for the Year Ended 31
December, 2006

	2006		2005
	N000	N000	N000
	N000		
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	40	
Retained in the profit and loss account	<u>24</u>		<u>18</u>

Balance Sheet as at 31 December, 2006

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>

Required:

Compute the following financial ratios for 2005 and 2006, 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.

(30
marks)

2. (a) Define 'financial statement'. (5 marks)
 (b) Name and discuss the main components of the financial statement. (10 marks)
 (c) Discuss financial statement as a tool for management decision-making. (5 marks)

3. (a) Discuss the various steps for a reliable cash management in an enterprise. (8 marks)
 (b) Enumerate and discuss the motives for holding cash. (12 marks)

4. (a) Distinguish between a 'credit sale' and a 'cash sale', with examples. (5 marks)
 (b) Highlight and explain the credit policy variables of a firm. (10 marks)

 (c) An enterprise uses 10,000 units of an item in 60 days. The ordering costs are N200 per order and the storage cost for one unit for 60 days is N1.00. Calculate the EOQ.

(5
marks)

5. (a) What is financial analysis?
marks)

(3

(b) How useful is the analysis of financial statements?
(5marks)

(c) Enumerate and discuss the types of liquidity ratios.
(12 marks)

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