



**NATIONAL OPEN UNIVERSITY OF NIGERIA**  
**14/16, AHMADU BELLO WAY, VICTORIA ISLAND, LAGOS**  
**SCHOOL OF MANAGEMENT SCIENCES**  
**JUNE/JULY, 2013 EXAMINATIONS.**

**Course Code:** MBF848      **Credit Unit:** 2.  
**Course Title:** ADVANCED EVALUATION METHOD  
**Time Allowed:** 2 Hours.  
**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. a. List the FOUR classifications of Accounting Ratios known to you.  
**5 MARKS**  
 b. You are to study the following two furniture stores belonging to Saka and Olu and the answer the questions which follow.

**FINANCIAL STATEMENTS**

		<u>SAKA</u>	
<u>OLU</u>			
	N'000	N'000	N'000
N'000			
<b>Income Statements</b>			
750	Sales	555	
	Less Cost of goods sold		
	Opening inventory	100	80
	Add Purchases	<u>200</u>	<u>320</u>
		300	
400	Less Closing inventory	<u>(60)</u>	<u>(70)</u>
<u>(330)</u>	Gross profit	315	
420	Less Depreciation	5	15
	Wages and Salaries	165	220
	Other expenses	<u>45</u>	<u>35</u>
<u>(270)</u>	Net profit	<u>100</u>	
<u>150</u>			

**Balance Sheets**  
*Non-current assets*

	Equipment at cost	50		100
	Less Depreciation to date	<u>(40)</u>	10	<u>(30)</u>
70				
	<i>Current assets</i>			
	Inventory	60		
70				
	Account receivable	125		100
	Bank	<u>25</u>	<u>210</u>	—
<u>12.5</u>	<u>162.5</u>			
	Total assets		220	
252.5				
	<i>Current liabilities</i>			
	Account payable		<u>(104)</u>	
<u>(100.5)</u>				
	Net assets		<b><u>116</u></b>	
<b><u>152</u></b>				
<hr/>				
	<b><i>Financed by:</i></b>			
	Capitals			
	Balance at start of year		76	
72				
	Add Net profit		<u>100</u>	
<u>150</u>				
			176	
222				
	Less Drawings		<u>(60)</u>	
<u>(70)</u>				
			<b><u>116</u></b>	
<b><u>152</u></b>				

Required:

**(a)** Calculate the following ratios for each business:

- Gross profit percentage;
- Net profit percentage;
- Expenses as percentage of sales;
- Inventory turnover;
- Net profit on Capital employed (use average of the capital a/c);
- Current ratio;
- Acid test ratio;
- Accounts receivable/sales ratio;
- Accounts payable/purchases ratio.

20 MARKS

**(b)** Drawing upon all your knowledge of accounting, comment upon the differences and similarities of the accounting ratios for Saka and Olu. Which business seems to be the most efficient? Give possible reasons.

5 MARKS

2. a. Define the Asset Conversion Cycle.  
5 MARKS
- b. Explain the basic steps in the Asset Conversion Cycle.  
15 MARKS

3. a. List the Traditional Criteria of Capital Investment Decision. 2 MARKS
- b. Ogba Limited having a project which involves immediate cash outlay of N200,000.00. The company estimates that the net cash inflows from the project will be as follows:

Year	Cash flow (N)
1	20,000.00
2	40,000.00
3	220,000.00
4	80,000.00

Calculate the payback period for the above project.

14 MARKS

- c. State the Decision Rule for this method of Investment Decision. 4 MARKS
4. a. How would you measure a firm's cost of retained earnings or equity?  
5 MARKS
  - b. You are given the following capital structure of a firm.

<u>Source of Finance</u>	<u>Amount (N)</u>
<u>Proportion</u>	
Equity share capital	2,250,000
45%	
Retained Earnings	750,000
15%	
Preference share capital	500,000
10%	
Debt issues	<u>1,500,000</u>
<u>30%</u>	
	5,000,000
100%	

The firm's after-tax component cost of the various sources of finance are as

Follows:

Source	Cost
Equity share capital	15%
Retained Earnings	12%

Preference share capital                      10%

Debt issues                                      8%

Determine the firm's Weighted Average Cost of Capital [WACC].

15 MARKS

5. a. List the 5 stages of a Project Cycle.  
b. Discuss all the stages listed in (a).

5 MARKS

15 MARKS