



**NATIONAL OPEN UNIVERSITY OF NIGERIA**  
**14/16 AHMADU BELLO WAY, VICTORIA ISLAND, LAGOS**  
**SCHOOL OF MANAGEMENT SCIENCES**  
**SEPTEMBER/OCTOBER 2015 EXAMINATION**

**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) Explain briefly the following concepts in the analysis of financial statements: Capital maintenance, Comparability, Reliability, Relevance and understand ability **10 marks**

(ii) Using the financial statement below, calculate the ratios below and express what each showcases: Total assets turnover, Times interest earned, Average collection periods in days, fixed charges coverage and Profit margin on sales. **15 marks**

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Statement-1 TETE Ltd -Balance Sheet as at December 31, 2010

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

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The annual sinking fund contribution is N25,000

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Statement-2 TETE. Ltd –Income Statement for the year ended December 31, 2010

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	N	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 ordinary shareholders (net profit)				<u>200,000</u>
Dividends				30,000
Increase in retained earnings				<u>170,000</u>

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**(25 marks)**

2. Explain the usefulness of opportunity cost in decision making in business. **(15 marks)**
- 3 Why is long range profit goal setting necessary for management of an organization? **(15 marks)**
4. Explain activity ratio of an enterprise and identify different types of activity ratios used in an organization. **(15 marks)**
5. State any five purposes the International Accounting Standard Board (IASB) and explain how they assist in the analysis of financial statements. **(15 marks)**
6. What are accounting policies? Highlight five of significant accounting policies that have to be in financial statements of a company **(15 marks)**