

Questions 1-3: Use the following income statement and balance sheet to answer the following questions.

Income Statement

| | |
|---------------------|---------------|
| Sales | 130,000 |
| Cost of Goods Sold | 26,000 |
| Profit Margin | 104,000 |
| Salaries and Wages | 15,000 |
| Rent Expense | 5,000 |
| Licensing Expenses | 20,000 |
| Advertising Expense | 4,000 |
| Total Expenses | 44,000 |
| Net Income | 60,000 |

Balance Sheet

| | |
|--------------------------------|---------|
| Assets | |
| Cash | 10,000 |
| Inventory | 15,000 |
| Property, Plant, and Equipment | 250,000 |
| Accounts Receivable | 5,000 |
| Total Assets | 280,000 |
| Liabilities | |
| Accounts Payable | 20,000 |
| Notes Payable | 40,000 |
| Total Liabilities | 60,000 |
| Owners' Equity | |
| Common Stock | 120,000 |
| Retained Earnings | 100,000 |
| Total Owners' Equity | 220,000 |

Question 1: Calculate the company's current ratio and quick ratio.

Question 2: Calculate the company's return on assets and return on equity.

Question 3: Calculate the company's debt ratio and debt to equity ratio.

Example 2: Preparation of Income Statement and Balance Sheet:

The following balances are taken from the books of George Anderson at the end of his first year trading on 31 December 2014.

| | Debit | Credit |
|---------------------------|--------------|--------------|
| | \$ | \$ |
| Sales | | 40000 |
| Purchases | 18500 | |
| Wages and salaries | 5100 | |
| Repairs and maintenance | 1300 | |
| Heating and lighting | 900 | |
| General expenses | 1200 | |
| Insurance | 800 | |
| Cash at bank | 2200 | |
| Cash in hand | 1300 | |
| Trade receivables | 4100 | |
| Trade payables | | 3400 |
| Premises | 30000 | |
| Fixtures and fittings | 10000 | |
| Motor vehicle | 8000 | |
| Capital at 1 January 2014 | | 52000 |
| Drawings | 12000 | |
| | <u>95400</u> | <u>95400</u> |