Source: "English for CPAs and Professional Accountants" номын Example Accounting Problems

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.

Answer to Question 1: Current ratio = 1.5 (30,000 current assets ÷ 20,000 current liabilities). Quick ratio = 0.75 (15,000 non-inventory current assets ÷ 20,000 current liabilities).

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

Answer to Question 2: Return on assets = 21.4% (60,000 net income ÷ 280,000 total assets). Return on equity = 27.3% (60,000 net income ÷ 220,000 shareholders' equity)

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

Answer to Question 3: Debt ratio = 21.4% (60,000 liabilities ÷ 280,000 assets). Debt to equity ratio = 27.3% (60,000 liabilities ÷ 220,000 shareholders' equity).

Source: www.financialaccountancy.org

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	
	95400	95400

Answer

a)

Income Statement

For the year ended 31 December 2014

	$	$
Sales		40000
Cost of sales		
Purchases	18500	
Inventory at 31 December 2014	(4500)	(14000)
Gross profit		**26000**
Expenses		
Wages and salaries	5100	
Repairs and maintenance	1300	
Heating and lighting	900	
General expenses	1200	
Insurance	800	(9300)
Net Profit		**16700**

b)

Balance Sheet as at 31 December 2014

	$	$	$
Non-current assets			
Premises		30000	
Fixtures and fittings		10000	
Motor Vehicles		8000	48000
Current assets			
Inventory	4500		
Trade receivables	4100		
Cash at bank	2200		
Cash in hand	1300	12100	
Current liabilities			
Trade payables		(3400)	8700
			56700
Equity			
Capital at 1 January 2014		52000	
Add Net Profit		16700	
Less Drawings		(12000)	56700