

- 1 The following balances as at 28 February 2010 were obtained from the firm:

**Sandy Wong**  
**Trial Balance as at 28 February 2010**

	<i>Dr</i>	<i>Cr</i>
	\$	\$
Accounts payable		14,144
Accounts receivable	23,103	
Bank overdraft		864
Bank loan (repayable on 28 February 2018)		28,800
Capital		130,743
Cash	68	
Drawings	9,540	
Electricity	3,510	
Inventory, 1 March 2009	11,340	
Motor vehicles	18,900	
Office equipment	25,200	
Premises	97,600	
Purchases	139,860	
Rent and rates	2,070	
Returns inwards	4,680	
Returns outwards		5,985
Salaries and wages	43,650	
Sales		199,170
Carriage inwards	185	
	<u>379,706</u>	<u>379,706</u>

Inventory at 28 February 2010 was valued at \$13,450.

- (a) Prepare an income statement for the year ended 28 February 2010.  
 (b) Prepare a statement of financial position as at 28 February 2010.  
 (c) Calculate (to two decimal places) the following accounting ratios:  
 (i) Gross profit ratio      (ii) Net profit ratio      (iii) Return on capital employed  
 (iv) Current ratio      (v) Acid test ratio

(a)

**Sandy Wong**  
**Income statement for the year ended 28 February 2010**

	\$	\$	\$
Sales			199,170
Less: Returns inwards			4,680
			194,490
Less: Cost of goods sold:			
Opening inventory		11,340	
Add: Purchases	139,860		
Carriage inwards	185		
	140,045		
Less Returns outwards	(5,985)	134,060	
		145,400	
Less Closing inventory		(13,450)	(131,950)
Gross profit			62,540
Less Expenses			
Electricity		3,510	
Rent and rates		2,070	
Salaries and wages		43,650	49,230
Net profit			<u>13,310</u>



(b)

**Sandy Wong**  
**Statement of financial position as at 28 February 2010**

	\$	\$
<b>Non-current assets</b>		
Premises		97,600
Office equipment		25,200
Motor vehicles		18,900
		141,700
<b>Current assets</b>		
Inventory	13,450	
Trade receivables	23,103	
Cash	68	
	36,621	
<b>Less Current liabilities</b>		
Trade payables	(14,144)	
Bank overdraft	(864)	
	(15,008)	
Net current assets		21,613
<b>Less Non-current liabilities</b>		
Bank loan (repayable on 28 February 2018)		(28,800)
		134,513
<b>Financed by:</b>		
Capital as at 1 March 2009		130,743
Add Net profit		13,310
		144,053
Less Drawings		9,540
		134,513

- (c) (i)  $\text{Gross profit ratio} = \$62,540 / \$194,490 \times 100\% = 32.16\%$
- 
- (ii)  $\text{Net profit ratio} = \$13,310 / \$194,490 \times 100\% = 6.84\%$
- 
- (iii)  $\text{Return on capital employed} = [\$13,310 / (130,743 + 134,513) \div 2] \times 100\% = 10.04\%$
- 
- (iv)  $\text{Current ratio} = \$36,621 / \$15,008 : 1 = 2.44 : 1$
- 
- (v)  $\text{Acid test ratio} = \$23,171 / \$15,008 : 1 = 1.54 : 1$
-



2. The following account balances are extracted from the ledgers of David Chan at 31 October 2010:

	\$	
Capital	21,550	
Bank	720	Cr
Peter Lai	1,320	Dr

During November 2010, the following transactions took place:

- Nov 1 Bought goods for \$520 from Fanny Chan on credit.  
 Nov 5 Inventory costing \$1,200 were taken by David Chan for private use.  
 Nov 15 David transferred \$500 from his private bank account to the business bank account as an additional investment.  
 Nov 25 Rent for November and December, at \$330 per month, was paid by cheque.  
 Nov 29 Peter Lai settled his account by cheque, deducting 5% cash discount.

Prepare the T-accounts in the books of David Chan to record the above transactions.

### Purchase

2010			\$	2010			
Nov	1	Fanny Chan	520	Nov	5	Drawings	1,200

### Fanny Chan

				2010			\$
				Nov	1	Purchase	520

### Drawings

2010			\$				
Nov	5	Purchase	1,200				

### Bank

2010			\$	2010			\$
Nov	15	Capital	500	Nov	1	Balance b/d	720
Nov	29	Peter Lai	1,254	Nov	25	Rent	660

### Capital

				2010			\$
				Nov	1	Balance b/d	21,550
				Nov	15	Bank	500

### Rent

2010			\$				
Nov	25	Bank	660				

### Peter Lai

2010			\$	2010			\$
Nov	29	Balance b/d	1,320	Nov	29	Discount allowed	66
				Nov	29	Bank	1,254

### Discount allowed

2010			\$				
Nov	29	Peter Lai (\$1,320 x 5%)	66				