

Chapter 1

Introduction to financial accounting

Practice Problems

Practice Problem A

1

Account	Classification
Cash at bank	Asset
Inventory	Asset
Sales	Revenue
Wages	Expense
Cost of goods sold	Expense
Share capital	Equity
Accounts payable	Liability

2

Income Statement For the year ending 30 June 2016

	\$
Sales	210,000
Cost of goods sold	<u>(70,000)</u>
Gross profit	140,000
Wages	<u>(40,000)</u>
Net Profit	100,000

3

Balance Sheet As at 30 June 2016

Assets		Liabilities and shareholders' equity	
	\$		\$
Cash at bank	210,000	Accounts payable	30,000
Inventory	60,000	Share capital	140,000
		Retained profits	100,000 *
	<u>270,000</u>		<u>270,000</u>

*Opening retained profit + profit – dividend = closing balance retained profit (0 + 100,000 – 0 = 100,000)

Practice Problem B

- 1 Accrual profit = total sales – total expenses
 = \$750,000 + 260,000 – 580,000 – 240,000
 = \$190,000
- 2 Sales revenue = 2,000 x \$8
 = \$16,000
- Cost of goods sold = 2,000 x \$5
 = \$10,000

Practice Problem C

- Shareholders' equity = Assets – Liabilities
 = (Property, Plant and Equipment \$1,500,000 + Accounts
Receivable
 \$400,000 + Cash \$100,000 + Inventory \$500,000)
 – (Bank loan \$250,000 + Wages Payable \$90,000)
 = \$2,500,000 – 340,000
 = \$2,160,000