



Financial Accounting Self-Assessment Test

Suggested time to complete: 90 minutes

Question No. 1

Indicate the effect on assets, liabilities and shareholders' equity of failing to record each of the following transactions or events. Use the notation "O" (overstated), "U" (understated) or "N" (no effect) in recording your answer. For example, a failure to record the issuance of common shares for \$50,000 cash would be:

Assets	-	U \$50,000
Liabilities	-	N
Shareholders' equity	-	U \$50,000

- a) Inventory costing \$4,000 is purchased on account.
- b) A building costing \$100,000 is acquired. A 20% downpayment is made, with the remainder payable over four years.
- c) A purchase order for \$6,000 of merchandise is sent to a supplier.
- d) A cheque for \$1,000 is received from a customer for goods to be delivered next month.
- e) A cheque for \$500 is issued to cover rental of a warehouse for the next two months.
- f) Common shares with a market value of \$5,000 are issued to lawyers for services rendered in setting up the company.
- g) A loan payable of \$10,000, which had previously been recorded on the books, is now fully paid.
- h) A cheque for \$5,000 is issued for an option to purchase some land. The total price of the land is \$20,000. The option can be rescinded within 90 days.

Question No. 2

On March 1, 1999 your friend, Pamela Martin, opened a florist shop, Scents of Flowers Ltd., in a nearby shopping mall. To begin her business, Pamela invested \$50,000 in share capital and her boy friend, Fred, loaned the firm another \$50,000, bearing interest of 10% per annum, of which none has been paid to date.

The following is a summary of selected transactions for the year ended February 28, 2000.

Cost of merchandise purchased on account	\$45,000
Wages paid to part-time employee	10,200
Salary paid to Pamela Martin	24,000
Rent paid	6,000
Business taxes and licenses (10 months, 1994)	500
Supplies purchased for cash	4,350
Miscellaneous expenses paid	7,625
Merchandise sold (all collected except \$5,000)	75,000
Cost of merchandise sold	40,000
Supplies on hand at end of year	350

Additional Information:

Of the merchandise purchased during the year, \$6,000 had not yet been paid.

When the company started, Pamela purchased a comprehensive insurance policy with a two year premium for \$1,000.

The company had purchased on March 1, 1999, furniture and fixtures for \$15,000 cash which were estimated to last for 5 years. At the end of five years, the furniture and fixtures would have no salvage value.

Required:

Prepare an income statement and balance sheet of Scent of Flowers Ltd. for the year ended February 28, 2000 in the proper format. Ignore income taxes.

Question No. 3

Kirstin Wayne Ltd.'s balance sheets for the year ended December 31, 1998 and 1999 as well as the income statement for the year ended December 31, 1999 are presented below:

KIRSTIN WAYNE LTD.- Balance Sheet

ASSETS	<u>December 31, 1998</u>	<u>December 31, 1999</u>
<u>Current:</u>		
Cash	\$40,000	\$25,000
Accounts receivable	40,000	20,000
Inventory	<u>60,000</u>	<u>80,000</u>
Total current assets	<u>\$140,000</u>	<u>\$125,000</u>
Property, plant and equipment	\$200,000	\$318,000
Accumulated depreciation	<u>(100,000)</u>	<u>(138,400)</u>
Net property, plant and equipment	<u>\$100,000</u>	<u>\$179,600</u>
Total assets	<u>\$240,000</u>	<u>\$304,600</u>

LIABILITIES & SHAREHOLDERS' EQUITY

	<u>December 31, 1998</u>	<u>December 31, 1999</u>
<u>Current Liabilities:</u>		
Accounts payable	\$10,000	\$40,000
Dividends payable	0	2,000
Notes payable	<u>0</u>	<u>40,000</u>
Total current liabilities	\$10,000	\$82,000
Bonds payable	100,000	80,000
Common shares	50,000	60,000
Retained earnings	<u>80,000</u>	<u>82,600</u>
Total liabilities & shareholders' equity	<u>\$240,000</u>	<u>\$304,600</u>

**KIRSTIN WAYNE LTD.
Income Statement For the Year Ended December 31, 1999**

Sales revenue	\$260,000
Cost of goods sold	<u>180,000</u>
Gross profit	\$ 80,000
Operating expenses	30,000
Depreciation expenses	40,000
Gain on sale of property, plant & equipment	<u>600</u>
Net Income	<u>\$ 10,600</u>

Additional Information:

During 1999, Kirstin Wayne Ltd. sold for \$1,000 in cash, property, plant and equipment that had an original cost of \$2,000 and a net book value of \$400.

Required:

Prepare a cash flow statement, in proper format, for Kirstin Wayne Ltd. for the year ended December 31, 1999.