c11

Student: _____

1. A liability is a future payment of assets or services that a company is currently obligated to make as a result of past transactions or events.
True False

2. A company's obligations not expected to be paid within the longer of one year of the balance sheet date or the next operating cycle are reported as current liabilities.
True False

3. All expected future payments are liabilities.
True False

4. A liability exists because of a past event that creates a future obligation for future sacrifices.
True False

5. Long-term liabilities are obligations of a company requiring payment within one year.
True False

6. A long-term liability can have a current component.
True False

7. Amounts received in advance from a customer for future products or services are initially recorded as liabilities.
True False

8. Trade accounts payable are amounts owed to suppliers for products or services purchased on credit.
True False

9. Unearned revenue is another name for sales revenue.
True False

10. Sales taxes payable is credited and cash is debited when firms send sales taxes collected from customers to the government.
True False

11. Known liabilities are agreements, contracts, or laws that are measurable and have little uncertainty.
True False

12. The Toronto Raptors received $6 million in season ticket sales. Prior to the beginning of the basketball season, these sales are recorded as a credit to unearned season ticket revenue.
True False

13. Gross pay is the same as net pay.
True False

14. Provincial Sales Tax Payable is a tax levied on sales to all final consumers of taxable products.
True False

15. Goods and Services Tax (GST) is not paid by a wholesaler.
True False

16. A short-term note payable is a written promise to pay a specified amount on a specified future date within one year or the payee's operating cycle, whichever is shorter.
True False

17. A note payable can be used to extend the credit period for an account payable.
True False

18. The stated interest rate on a short-term note payable is to compensate for the time until payment is made.
True False

19. The matching principle requires that the total interest expense be allocated over the term of the note.
True False

20. Estimated liabilities include employee health benefits, property taxes, and warranties.
True False

21. An estimated liability is a known obligation of an uncertain amount that can be reasonably estimated.
True False

22. Estimated liabilities are also referred to as provisions.
True False

23. Both partnerships and corporations calculate an income tax liability based on their taxable incomes, but proprietorships do not.
True False

24. At their fiscal year end, Lorax Corp has an (unadjusted) $62,000 credit balance in their Income Tax Payable account. However, a review reveals that the actual liability is $70,000. Lorax Corp should prepare an adjusting entry to debit Income Tax Expense for $8,000 and credit Income Taxes Payable for $8,000.
True False

25. Kirland performed warranty repair work for a customer which cost $800. The journal entry to record the work should be a debit of $800 to Warranty Expense and a $800 credit to Estimated Warranty Liability.
True False

26. A company can have a liability even if the amount of the obligation is uncertain.
True False

27. The accounting for a contingent liability is the same as for a provision.
True False

28. A pending lawsuit is an example of a contingent liability.
True False

29. A contingent liability exists when a potential liability that depends on a future event arising out of a past transaction liability is either not probable or it cannot be reliably estimated.
True False

30. Contingent assets should be recognized as soon as they are probable and can be reliably estimated.
True False

31. Recording provisions is required when it is probable that the liability will occur and the amount can be reasonably estimated.
True False

32. The relevance principle requires that contingent assets be recorded.
True False

33. A warranty is a contingent liability.
True False

34. Management can withhold any information regarding future events if releasing the information could cause a share price decline.
True False

35. The characteristics of a liability include:
A. Occurrence of a past transaction or event.
B. Requirement of future payment of assets or rendering of services.
C. A liability can be current or long term.
D. Existence of a present obligation.
E. All of these answers are correct.

36. Obligations due to be paid within one year or the company's operating cycle, whichever is longer, are:
A. Current assets.
B. Revenues.
C. Current liabilities.
D. Operating cycle liabilities.
E. Long term liabilities.

37. Obligations not expected to be paid within one year are reported as:
A. Current assets.
B. Current liabilities.
C. Long term liabilities.
D. Operating cycle liabilities.
E. Revenues.

38. On December 31, 2015, Peligrino Co. has a long term note payable of $800,000. Of that balance, $100,000 will be paid within one year from the balance sheet date. How much of the note payable should Peligrino Co. report as a long term liability when they prepare the December 31, 2015 balance sheet?
A. $700,000.
B. $800,000.
C. $900,000.
D. $1,000,000.
E. Nothing. Disclose in a note to the financial statements.

39. Liabilities:
A. Can be reliably estimated.
B. Must be certain.
C. Must be for a specific amount.
D. Must have a date for payment.
E. Must have a known payee.

40. Long-term liabilities:
A. Are liabilities arising from future events.
B. Are sometimes reported on the income statement.
C. Are obligations requiring payment within one year or less.
D. Are not recorded until they are paid.
E. Are obligations of a company not requiring payment within one year.

41. The current portion of long-term debt:
A. Refers to the part of long-term debt that is due within one year.
B. Is shown separately from the long term portion on the balance sheet.
C. Must be disclosed.
D. Will be a known amount.
E. All of these answers are correct.

42. Fees accepted in advance from a client:
A. Are recorded as earned revenues on the income statement.
B. Increase income.
C. Are recorded as liabilities.
D. Do not increase assets.
E. None of these answers is correct.

43. Known liabilities:
A. Have definite due dates.
B. Are set by agreements, contracts, or laws.
C. Are measurable.
D. Have a known payee.
E. All of these answers are correct.

44. Provincial sales tax payable:
A. Is an estimated liability.
B. Is a contingent liability.
C. Is a current liability for retailers.
D. Is a business expense.
E. All of these answers are correct.

45. Unearned revenues are:
A. Amounts received in advance from customers for future delivery of products or services.
B. Not recorded as liabilities.
C. The same as accrued revenues.
D. Reduce assets.
E. All of these answers are correct.

46. Unearned revenue is initially recognized with a:
A. Credit to revenue payable.
B. Credit to revenue.
C. Credit to unearned revenue.
D. Debit to revenue.
E. Debit to unearned revenue.

47. The receipt of $6,000 in advance ticket sales would be recorded as:
A. Debit Cash, credit Unearned Revenue.
B. Debit Unearned Revenue, credit Sales.
C. Debit Sales, credit Unearned Revenue.
D. Debit Unearned Revenue, credit Cash.
E. Debit Cash, credit Revenue Payable.

48. Gross pay is:
A. Take-home pay.
B. Deductions withheld by an employer.
C. Salaries after taxes are deducted.
D. Total compensation earned by an employee.
E. The amount of the paycheque.

49. The employer should record payroll deductions as:
A. Employee receivables.
B. Current liabilities.
C. Payroll taxes expense.
D. Wages payable.
E. Employee payables.

50. A combined GST and PST rate of 12% applied to taxable supplies is called:
A. Zero-rated tax.
B. Harmonized Sales Tax.
C. Input Tax Credit.
D. Combined Sales Tax.
E. None of these answers is correct.

51. Accounts payable:
A. Have specific due dates.
B. Are long-term liabilities.
C. Are estimated liabilities.
D. Are amounts owed to suppliers for products and services purchased on credit.
E. All of these answers are correct.

52. Payroll liabilities for current employees are:
A. Contingent liabilities.
B. Estimated liabilities.
C. Can be either current or long-term depending on when workers retire.
D. Current liabilities.
E. None of these answers is correct.

53. The difference between the amount received from a note payable and the amount repaid is:
A. Interest.
B. Principal.
C. Face value.
D. Discount.
E. Premium.

54. A short-term note payable:
A. Is a written promise to pay a specified amount.
B. Is a contingent liability.
C. Is an estimated liability.
D. Is not recorded until it is repaid.
E. Usually does not bear interest.

55. Short-term notes payable:
A. Can replace an account payable.
B. Usually represent money borrowed from a bank.
C. Are usually interest bearing.
D. Are recorded as current liabilities.
E. All of these answers are correct.

56. Promissory notes:
A. Are negotiable.
B. Can be transferred from party to party by endorsement.
C. Are due on a specific date.
D. Can be current or long term.
E. All of these answers are correct.

57. Which of the following is created by the adjusting entry to recognize interest expense incurred but not yet paid?
A. Prepaid interest.
B. Unearned revenue.
C. Interest revenue.
D. Interest expense.
E. Notes payable.

58. West Coast Outdoor Co. signed a $8,000, 90-day, 4% interest-bearing note payable at the bank in exchange for cash. Which of the following journal entries should West Coast Outdoor Co. use to record the note?

A.	Cash	8,079	
	Interest Expense	79	
	Notes Payable		8,000
B.	Cash	8,000	
	Notes Payable		8,000
C.	Notes Payable	8,000	
	Cash		8,079
	Interest Expense		79
D.	Cash	8,000	
	Accounts Payable		8,000
E.	Notes Payable	8,079	
	Interest Expense	79	
	Cash		8,000

59. MiniCompany borrowed $6,000 by signing an 8% interest-bearing 45-day note payable in exchange for an overdue accounts payable. To record this transaction, MiniCompany should prepare a journal entry that includes a:
A. Credit to Accounts Payable for $6,000.
B. Credit to Notes Payable for $6,000.
C. Debit to Cash for $6,000.
D. Debit to Notes Payable for $6,000.
E. Debit to Cash for $6,300.

60. An estimated liability:
A. Is an unknown liability of a certain amount.
B. Can be the result of a lawsuit.
C. Is a liability that may occur if a future event occurs.
D. Is a known obligation of an uncertain amount.
E. None of these answers is correct.

61. Estimated liabilities can arise from:
A. Warranties.
B. Property taxes.
C. Income taxes.
D. Employee benefits.
E. All of these answers are correct.

62. Employee vacation benefits:
A. Are estimated liabilities.
B. Are contingent liabilities.
C. Become an expense when the employee takes a vacation.
D. Are not recorded until the employee leaves.
E. Are not required by law.

63. West Coast Outdoor Co. sold $22,000 worth of trampolines with a one year warranty. The company estimates that 2% of the sales will result in warranty work. West Coast Outdoor Co. should:
A. Recognize warranty expense at the time of sale.
B. Recognize warranty expense at the time warranty work is performed.
C. Recognize warranty liability at the time of sale.
D. Recognize warranty expense and warranty liability at the time of sale.
E. Recognize warranty expense at the time warranty work is performed and warranty liability at the time of sale.

64. West Coast Outdoor Co. estimates that warranty expense will be 1% of sales. The current period's sales were $740,000. The entry to record the warranty expense is:

A.

Estimated Warranty Liability	7,400	
Warranty Expense		7,400

B.

Warranty Expense	7,400	
Sales		7,400

C.

Warranty Expense	7,400	
Estimated Warranty Liability		7,400

D.

Estimated Warranty Payable	7,400	
Warranty Expense		7,400

E.

Estimated Warranty Liability	7,400	
Cash		7,400

65. A contingent liability:
A. Is a liability of a specific amount.
B. Is a potential obligation that depends on a future event arising out of a past transaction.
C. Is an obligation not requiring immediate payment.
D. Is an obligation arising from the purchase of goods or services on credit.
E. None of these answers is correct.

66. Contingent liabilities occur when the liability is:
A. Probable and can be reliably estimated.
B. Cannot be reliably estimated.
C. Known and determinable.
D. Reliably estimated.
E. All of these answers are correct.

67. Provisions must be recorded if:
A. The future event is probable and the amount can be reliably estimated.
B. The future event is unlikely.
C. The future event is probable, but the amount cannot be estimated.
D. The future event is unlikely, but the amount can be reliably estimated.
E. All of these answers are correct.

68. Pending lawsuits:
A. Are always considered estimated liabilities.
B. Should always be recorded.
C. Should always be disclosed.
D. Should be disclosed if payment for damages is probable but the amount cannot be reliably estimated.
E. None of these answers is correct.

69. Uncertainties such as doubtful accounts:
A. Are not provisions because they are future events not arising out of past transactions.
B. Are provisions because they are future events arising from past transactions.
C. Should not be disclosed.
D. Are provisions because the amounts are uncertain.
E. Are not provisions since they relate to normal business activities.

70. Explain the difference between current and long-term liabilities.

71. Explain known current liabilities.

72. Explain the concept of interest.

73. Discuss the types of estimated liabilities.

74. Discuss how to account for contingent liabilities.

75. Breathe Therapeutic Company is located in Medicine Hat, Alberta and is a retailer of massage supplies. Beginning inventory is $70,000, and Breathe uses the perpetual inventory system. Complete the journal entries on the following dates, including 5% GST as applicable.

Oct-01	Breathe purchases $40,000 of merchandise from Robyn Massage Corp for cash.
Oct-12	Breathe sells $52,000 of massage products to a customer on credit terms n/45. The merchandise cost $40,000.
Oct-31	The customer pays for the October 12th sale.
Nov-10	Breathe remits the appropriate amount of GST to the government for the month of October.

76. On November 16, 2015, Kinsmen Sports gave Source for Sports a 120-day, 8%, $120,000 note payable to extend a past due account payable.
What amount of interest expense should Source for Sports report for calendar 2015?

77. On November 16, 2015, Source for Sports gave Kinsmen Sports a 90-day, 12%, $60,000 note payable to extend a past due account payable.
Prepare the journal entry for Source for Sports to record the note and the extension of the past due account.

78. On November 16, 2015, Williams Industrial gave Phillip Co. a 90-day, 8%, $80,000 note payable to extend a past due account payable.
Prepare the journal entry for Williams Industrial to record payment of the note on Feb 14, 2016. Williams Industrial recorded a December 31st year end adjusting entry.

79. On June 14 , Multi Sports received a 90-day note payable from Single Sport, instead of cash payment of an overdue account. The amount of the note was $45,000 at an interest rate of 10%.
What is the total amount of interest for the note?

80. On June 14, Cool Sports gave a 90-day note payable to Quick Skis, instead of cash payment of an overdue account. The amount of the note was $85,000 at an interest rate of 12%.
Prepare the journal entry on Cool Sports books to record the note payable.

81. On June 14, Cool Sports gave a 90-day note payable to Slip and Slide Co., instead of cash payment of an overdue account. The amount of the note was $65,000 at an interest rate of 12%.
Prepare the journal entry and determine the maturity date for Cool Sports to record payment of the note.

82. On September 15, Lohr Co. borrowed $50,000 from Close Bank. The loan had an interest rate of 12% and was due in 60 days.
Prepare the journal entry for Lohr Co. to record the note.

83. On November 15, Lohr Co. borrowed $20,000 from Convenient Bank. The loan had an interest rate of 12% and was due in 120 days.
Prepare the journal entry to record the payment of the note on Lohr's books, assuming an adjusting entry was made at December 31st , Lohr Co.'s year end.

84. On November 16, Predator Company borrowed $112,000 from DT Bank. The loan had an interest rate of 10% and was due in 90 days. Predator Company's fiscal year-end is December 31.
Prepare the journal entry to record the receipt of the cash.

85. On November 16, Predator Company borrowed $112,000 from DT Bank. The loan had an interest rate of 10% and was due in 90 days. Predator Company's fiscal year-end is December 31.
Prepare the journal entry to record the interest due at December 31.

86. On November 16, Predator Company borrowed $112,000 from DT Bank. The loan had an interest rate of 10% and was due in 90 days. Predator Company's fiscal year-end is December 31.
Prepare the journal entry to record the payment of the note on Predator's books.

87. Elder Helpers Ltd estimates its income taxes at 35% of pre-tax income. For the quarter ended September 30, pre-tax income was $300,000. Prepare the journal entry to record the estimated income taxes and the subsequent remittance on October 5.

88. A company sells its product subject to a warranty that covers the cost of parts and labour for repairs during the six months after sale. Warranty costs are estimated to be 4.5% of sales for parts, and 1.5% of sales for labour. During the month of June, the company performed warranty work and used $8,000 worth of parts and paid $4,000 in wages for labour to do the warranty work. Sales for June amounted to $450,000.

(1) What account should be debited for the $4,000 in labour?
(2) What should be the amount of estimated warranty expense for June?
(3) If the Estimated Warranty Liability account had a $10,000 credit balance on May 31, what should be the account balance as of June 30?

89. Buy Best Company sells personal computers for $2,300 each. The price includes a two-year warranty. During 2015, the company sells 600 computers. On the basis of past experience, the warranty costs are estimated to be $150 per computer. The actual warranty costs paid by Buy Best during 2015 were $45,000. Prepare general journal entries to record the estimated warranty expense and the warranty payments during 2015.

90. Honest Computers sells computers with a 6-month warranty. In January, the company sold 35,000 computers at $2,600 each and 1,500 computers were returned for repairs. The total repair costs amounted to $185,000. It is estimated that 3% of all units sold will need repairs under warranty at an estimated cost of $300 per unit. Prepare the journal entry to record warranty expense for January.

91. _____ are obligations expected to be paid using current assets or by creating other current liabilities.

_____

92. Unearned revenues are amounts received _____.

_____

93. Taxable goods or services on which GST is calculated and that include everything except zero-rated and exempt supplies are called _____.

_____

94. A refund of GST would be received if the balance in the GST _____ account exceeded the balance in the GST _____ account.

_____

95. The difference between the amount received from a promissory note and the amount repaid is _____.

_____

96. Contingent liabilities are disclosed when the liability is not _____ or it cannot be _____.

_____

97. _____ is to compensate the owner of note payable for its use by a borrower until payment is made.

_____

98. Classify each of the following items as either:

1. Long-term liability.
2. Current liability.
3. Not a liability

30-day promissory note
Car payments on a 4-year loan due this year
Salaries payable
Bonds payable
Employee deductions
Income taxes payable
Mortgage payments on a 30-year loan due this year
Mortgage payments on a 30-year loan due next year
Warranty work completed this year
Accounts payable

_____

99. Classify each of the following items as either:

1. Known current liability.
2. Estimated liability.
3. Contingent liability.

Pending lawsuit
Warranty liability on $150,000 worth of products sold
Accounts payable
Income taxes payable
CPP payable
Interest payable
Environmental liability
Property taxes payable
Payroll taxes payable
Unearned revenues

_____

100. Match each of the following terms with the appropriate definition.

1. Gross pay	Total compensation earned by an employee.	____
2. Short-term note payable	Obligations due within a year or the company's operating cycle, whichever is longer.	____
3. Taxable supplies	The portion of long-term debt that is due within one year.	____
4. Current portion of long-term debt	Taxable goods or services on which GST is calculated and includes everything except zero-rated and exempt supplies.	____
5. Current liabilities	A current obligation in the form of a written promissory note.	____
6. Known liabilities	Oigations of a company with little uncertainty; set by agreements, contracts, or laws.	____

101. Match each of the following terms with the appropriate definition.

1. Warranty	Amounts withheld by the employer from employees' gross pay for eventual payment to governments and others.	____
2. Payroll liabilities	Obligations of a company not requiring payment within one year.	____
3. Demand loan	A liability not having a fixed due date that is payable on the creditor's demand.	____
4. Long-term liability	Gross pay less all deductions.	____
5. Short-term note payable	A potential liability that depends on a future event arising out of a past transaction.	____
6. Estimated liability	Current obligation in the form of a written promissory note.	____
7. Net pay	An agreement that obligates the seller or manufacturer to repair or replace a product when it breaks or otherwise fails to perform properly within a specified period.	____
8. Contingent liability	Obligation of an uncertain amount that can be reliably estimated.	____

c11 Key

1. A liability is a future payment of assets or services that a company is currently obligated to make as a result of past transactions or events.
TRUE

Difficulty: Easy
Larson - Chapter 11 #1
Learning Objective: 11-01 Describe the characteristics of liabilities and explain the difference between current and long-term liabilities.
Type: Knowledge

2. A company's obligations not expected to be paid within the longer of one year of the balance sheet date or the next operating cycle are reported as current liabilities.
FALSE

Difficulty: Easy
Larson - Chapter 11 #2
Learning Objective: 11-01 Describe the characteristics of liabilities and explain the difference between current and long-term liabilities.
Type: Knowledge

3. All expected future payments are liabilities.
FALSE

Difficulty: Moderate
Larson - Chapter 11 #3
Learning Objective: 11-01 Describe the characteristics of liabilities and explain the difference between current and long-term liabilities.
Type: Knowledge

4. A liability exists because of a past event that creates a future obligation for future sacrifices.
FALSE

Difficulty: Hard
Larson - Chapter 11 #4
Learning Objective: 11-01 Describe the characteristics of liabilities and explain the difference between current and long-term liabilities.
Type: Knowledge

5. Long-term liabilities are obligations of a company requiring payment within one year.
FALSE

Difficulty: Easy
Larson - Chapter 11 #5
Learning Objective: 11-01 Describe the characteristics of liabilities and explain the difference between current and long-term liabilities.
Type: Knowledge

6. A long-term liability can have a current component.
TRUE

Difficulty: Moderate
Larson - Chapter 11 #6
Learning Objective: 11-01 Describe the characteristics of liabilities and explain the difference between current and long-term liabilities.
Type: Knowledge

7. Amounts received in advance from a customer for future products or services are initially recorded as liabilities.
TRUE

Difficulty: Easy
Larson - Chapter 11 #7
Learning Objective: 11-02 Identify and describe known current liabilities.
Type: Knowledge

8. Trade accounts payable are amounts owed to suppliers for products or services purchased on credit.
TRUE

Difficulty: Easy
Larson - Chapter 11 #8
Learning Objective: 11-02 Identify and describe known current liabilities.
Type: Knowledge

9. Unearned revenue is another name for sales revenue.
FALSE

Difficulty: Easy
Larson - Chapter 11 #9
Learning Objective: 11-02 Identify and describe known current liabilities.
Type: Knowledge

10. Sales taxes payable is credited and cash is debited when firms send sales taxes collected from customers to the government.
FALSE

Difficulty: Moderate
Larson - Chapter 11 #10
Learning Objective: 11-02 Identify and describe known current liabilities.
Type: Knowledge

11. Known liabilities are agreements, contracts, or laws that are measurable and have little uncertainty.
TRUE

Difficulty: Moderate
Larson - Chapter 11 #11
Learning Objective: 11-02 Identify and describe known current liabilities.
Type: Knowledge

12. The Toronto Raptors received $6 million in season ticket sales. Prior to the beginning of the basketball season, these sales are recorded as a credit to unearned season ticket revenue.
TRUE

Difficulty: Moderate
Larson - Chapter 11 #12
Learning Objective: 11-02 Identify and describe known current liabilities.
Type: Knowledge

13. Gross pay is the same as net pay.
FALSE

Difficulty: Easy
Larson - Chapter 11 #13
Learning Objective: 11-02 Identify and describe known current liabilities.
Type: Knowledge

14. Provincial Sales Tax Payable is a tax levied on sales to all final consumers of taxable products.
TRUE

Difficulty: Moderate
Larson - Chapter 11 #14
Learning Objective: 11-02 Identify and describe known current liabilities.
Type: Knowledge

15. Goods and Services Tax (GST) is not paid by a wholesaler.
FALSE

Difficulty: Moderate
Larson - Chapter 11 #15
Learning Objective: 11-02 Identify and describe known current liabilities.
Type: Knowledge

16. A short-term note payable is a written promise to pay a specified amount on a specified future date within one year or the payee's operating cycle, whichever is shorter.
FALSE

Difficulty: Moderate
Larson - Chapter 11 #16
Learning Objective: 11-03 Prepare entries to account for short-term notes payable.
Type: Knowledge

17. A note payable can be used to extend the credit period for an account payable.
TRUE

Difficulty: Moderate
Larson - Chapter 11 #17
Learning Objective: 11-03 Prepare entries to account for short-term notes payable.
Type: Knowledge

18. The stated interest rate on a short-term note payable is to compensate for the time until payment is made.
TRUE

Difficulty: Moderate
Larson - Chapter 11 #18
Learning Objective: 11-03 Prepare entries to account for short-term notes payable.
Type: Knowledge

19. The matching principle requires that the total interest expense be allocated over the term of the note.
FALSE

Difficulty: Hard
Larson - Chapter 11 #19
Learning Objective: 11-03 Prepare entries to account for short-term notes payable.
Type: Knowledge

20. Estimated liabilities include employee health benefits, property taxes, and warranties.
FALSE

Difficulty: Hard
Larson - Chapter 11 #20
Learning Objective: 11-04 Account for estimated liabilities; including warranties and corporate income taxes.
Type: Knowledge

21. An estimated liability is a known obligation of an uncertain amount that can be reasonably estimated.
TRUE

Difficulty: Easy
Larson - Chapter 11 #21
Learning Objective: 11-04 Account for estimated liabilities; including warranties and corporate income taxes.
Type: Knowledge

22. Estimated liabilities are also referred to as provisions.
TRUE

Difficulty: Moderate
Larson - Chapter 11 #22
Learning Objective: 11-04 Account for estimated liabilities; including warranties and corporate income taxes.
Type: Knowledge

23. Both partnerships and corporations calculate an income tax liability based on their taxable incomes, but proprietorships do not.
FALSE

Difficulty: Moderate
Larson - Chapter 11 #23
Learning Objective: 11-04 Account for estimated liabilities; including warranties and corporate income taxes.
Type: Knowledge

24. At their fiscal year end, Lorax Corp has an (unadjusted) $62,000 credit balance in their Income Tax Payable account. However, a review reveals that the actual liability is $70,000. Lorax Corp should prepare an adjusting entry to debit Income Tax Expense for $8,000 and credit Income Taxes Payable for $8,000.
TRUE

Difficulty: Easy
Larson - Chapter 11 #24
Learning Objective: 11-04 Account for estimated liabilities; including warranties and corporate income taxes.
Type: Application

25. Kirland performed warranty repair work for a customer which cost $800. The journal entry to record the work should be a debit of $800 to Warranty Expense and a $800 credit to Estimated Warranty Liability.
FALSE

Difficulty: Hard
Larson - Chapter 11 #25
Learning Objective: 11-04 Account for estimated liabilities; including warranties and corporate income taxes.
Type: Application

26. A company can have a liability even if the amount of the obligation is uncertain.
TRUE

Difficulty: Moderate
Larson - Chapter 11 #26
Learning Objective: 11-04 Account for estimated liabilities; including warranties and corporate income taxes.
Type: Knowledge

27. The accounting for a contingent liability is the same as for a provision.
FALSE

Difficulty: Moderate
Larson - Chapter 11 #27
Learning Objective: 11-04 Account for estimated liabilities; including warranties and corporate income taxes.
Type: Knowledge

28. A pending lawsuit is an example of a contingent liability.
TRUE

Difficulty: Easy
Larson - Chapter 11 #28
Learning Objective: 11-04 Account for estimated liabilities; including warranties and corporate income taxes.
Type: Knowledge

29. A contingent liability exists when a potential liability that depends on a future event arising out of a past transaction liability is either not probable or it cannot be reliably estimated.
TRUE

Difficulty: Moderate
Larson - Chapter 11 #29
Learning Objective: 11-04 Account for estimated liabilities; including warranties and corporate income taxes.
Type: Knowledge

30. Contingent assets should be recognized as soon as they are probable and can be reliably estimated.
FALSE

Difficulty: Moderate
Larson - Chapter 11 #30
Learning Objective: 11-04 Account for estimated liabilities; including warranties and corporate income taxes.
Type: Knowledge

31. Recording provisions is required when it is probable that the liability will occur and the amount can be reasonably estimated.
TRUE

Difficulty: Hard
Larson - Chapter 11 #31
Learning Objective: 11-04 Account for estimated liabilities; including warranties and corporate income taxes.
Type: Knowledge

32. The relevance principle requires that contingent assets be recorded.
FALSE

Difficulty: Moderate
Larson - Chapter 11 #32
Learning Objective: 11-04 Account for estimated liabilities; including warranties and corporate income taxes.
Type: Knowledge

33. A warranty is a contingent liability.
FALSE

Difficulty: Easy
Larson - Chapter 11 #33
Learning Objective: 11-04 Account for estimated liabilities; including warranties and corporate income taxes.
Type: Knowledge

34. Management can withhold any information regarding future events if releasing the information could cause a share price decline.
FALSE

Difficulty: Easy
Larson - Chapter 11 #34
Learning Objective: 11-04 Account for estimated liabilities; including warranties and corporate income taxes.
Type: Knowledge

35. The characteristics of a liability include:
A. Occurrence of a past transaction or event.
B. Requirement of future payment of assets or rendering of services.
C. A liability can be current or long term.
D. Existence of a present obligation.
E. All of these answers are correct.

Difficulty: Easy
Larson - Chapter 11 #35
Learning Objective: 11-01 Describe the characteristics of liabilities and explain the difference between current and long-term liabilities.
Type: Knowledge

36. Obligations due to be paid within one year or the company's operating cycle, whichever is longer, are:
A. Current assets.
B. Revenues.
C. Current liabilities.
D. Operating cycle liabilities.
E. Long term liabilities.

Difficulty: Easy
Larson - Chapter 11 #36
Learning Objective: 11-01 Describe the characteristics of liabilities and explain the difference between current and long-term liabilities.
Type: Knowledge

37. Obligations not expected to be paid within one year are reported as:
A. Current assets.
B. Current liabilities.
C. Long term liabilities.
D. Operating cycle liabilities.
E. Revenues.

Difficulty: Easy
Larson - Chapter 11 #37
Learning Objective: 11-01 Describe the characteristics of liabilities and explain the difference between current and long-term liabilities.
Type: Knowledge

38. On December 31, 2015, Peligrino Co. has a long term note payable of $800,000. Of that balance, $100,000 will be paid within one year from the balance sheet date. How much of the note payable should Peligrino Co. report as a long term liability when they prepare the December 31, 2015 balance sheet?
A. $700,000.
B. $800,000.
C. $900,000.
D. $1,000,000.
E. Nothing. Disclose in a note to the financial statements.

Difficulty: Moderate
Larson - Chapter 11 #38
Learning Objective: 11-01 Describe the characteristics of liabilities and explain the difference between current and long-term liabilities.
Type: Knowledge

39. Liabilities:
A. Can be reliably estimated.
B. Must be certain.
C. Must be for a specific amount.
D. Must have a date for payment.
E. Must have a known payee.

Difficulty: Hard
Larson - Chapter 11 #39
Learning Objective: 11-01 Describe the characteristics of liabilities and explain the difference between current and long-term liabilities.
Type: Knowledge

40. Long-term liabilities:
A. Are liabilities arising from future events.
B. Are sometimes reported on the income statement.
C. Are obligations requiring payment within one year or less.
D. Are not recorded until they are paid.
E. Are obligations of a company not requiring payment within one year.

Difficulty: Easy
Larson - Chapter 11 #40
Learning Objective: 11-01 Describe the characteristics of liabilities and explain the difference between current and long-term liabilities.
Type: Knowledge

41. The current portion of long-term debt:
A. Refers to the part of long-term debt that is due within one year.
B. Is shown separately from the long term portion on the balance sheet.
C. Must be disclosed.
D. Will be a known amount.
E. All of these answers are correct.

Difficulty: Hard
Larson - Chapter 11 #41
Learning Objective: 11-01 Describe the characteristics of liabilities and explain the difference between current and long-term liabilities.
Type: Knowledge

42. Fees accepted in advance from a client:
A. Are recorded as earned revenues on the income statement.
B. Increase income.
C. Are recorded as liabilities.
D. Do not increase assets.
E. None of these answers is correct.

Difficulty: Moderate
Larson - Chapter 11 #42
Learning Objective: 11-02 Identify and describe known current liabilities.
Type: Knowledge

43. Known liabilities:
A. Have definite due dates.
B. Are set by agreements, contracts, or laws.
C. Are measurable.
D. Have a known payee.
E. All of these answers are correct.

Difficulty: Moderate
Larson - Chapter 11 #43
Learning Objective: 11-02 Identify and describe known current liabilities.
Type: Knowledge

44. Provincial sales tax payable:
A. Is an estimated liability.
B. Is a contingent liability.
C. Is a current liability for retailers.
D. Is a business expense.
E. All of these answers are correct.

Difficulty: Moderate
Larson - Chapter 11 #44
Learning Objective: 11-02 Identify and describe known current liabilities.
Type: Knowledge

45. Unearned revenues are:
A. Amounts received in advance from customers for future delivery of products or services.
B. Not recorded as liabilities.
C. The same as accrued revenues.
D. Reduce assets.
E. All of these answers are correct.

Difficulty: Moderate
Larson - Chapter 11 #45
Learning Objective: 11-02 Identify and describe known current liabilities.
Type: Knowledge

46. Unearned revenue is initially recognized with a:
A. Credit to revenue payable.
B. Credit to revenue.
C. Credit to unearned revenue.
D. Debit to revenue.
E. Debit to unearned revenue.

Difficulty: Hard
Larson - Chapter 11 #46
Learning Objective: 11-02 Identify and describe known current liabilities.
Type: Knowledge

47. The receipt of $6,000 in advance ticket sales would be recorded as:
A. Debit Cash, credit Unearned Revenue.
B. Debit Unearned Revenue, credit Sales.
C. Debit Sales, credit Unearned Revenue.
D. Debit Unearned Revenue, credit Cash.
E. Debit Cash, credit Revenue Payable.

Difficulty: Moderate
Larson - Chapter 11 #47
Learning Objective: 11-02 Identify and describe known current liabilities.
Type: Application

48. Gross pay is:
A. Take-home pay.
B. Deductions withheld by an employer.
C. Salaries after taxes are deducted.
D. Total compensation earned by an employee.
E. The amount of the paycheque.

Difficulty: Easy
Larson - Chapter 11 #48
Learning Objective: 11-02 Identify and describe known current liabilities.
Type: Knowledge

49. The employer should record payroll deductions as:
A. Employee receivables.
B. Current liabilities.
C. Payroll taxes expense.
D. Wages payable.
E. Employee payables.

Difficulty: Easy
Larson - Chapter 11 #49
Learning Objective: 11-02 Identify and describe known current liabilities.
Type: Knowledge

50. A combined GST and PST rate of 12% applied to taxable supplies is called:
A. Zero-rated tax.
B. Harmonized Sales Tax.
C. Input Tax Credit.
D. Combined Sales Tax.
E. None of these answers is correct.

Difficulty: Moderate
Larson - Chapter 11 #50
Learning Objective: 11-02 Identify and describe known current liabilities.
Type: Knowledge

51. Accounts payable:
A. Have specific due dates.
B. Are long-term liabilities.
C. Are estimated liabilities.
D. Are amounts owed to suppliers for products and services purchased on credit.
E. All of these answers are correct.

Difficulty: Easy
Larson - Chapter 11 #51
Learning Objective: 11-02 Identify and describe known current liabilities.
Type: Knowledge

52. Payroll liabilities for current employees are:
A. Contingent liabilities.
B. Estimated liabilities.
C. Can be either current or long-term depending on when workers retire.
D. Current liabilities.
E. None of these answers is correct.

Difficulty: Moderate
Larson - Chapter 11 #52
Learning Objective: 11-02 Identify and describe known current liabilities.
Type: Knowledge

53. The difference between the amount received from a note payable and the amount repaid is:
A. Interest.
B. Principal.
C. Face value.
D. Discount.
E. Premium.

Difficulty: Easy
Larson - Chapter 11 #53
Learning Objective: 11-03 Prepare entries to account for short-term notes payable.
Type: Knowledge

54. A short-term note payable:
A. Is a written promise to pay a specified amount.
B. Is a contingent liability.
C. Is an estimated liability.
D. Is not recorded until it is repaid.
E. Usually does not bear interest.

Difficulty: Easy
Larson - Chapter 11 #54
Learning Objective: 11-03 Prepare entries to account for short-term notes payable.
Type: Knowledge

55. Short-term notes payable:
A. Can replace an account payable.
B. Usually represent money borrowed from a bank.
C. Are usually interest bearing.
D. Are recorded as current liabilities.
E. All of these answers are correct.

Difficulty: Easy
Larson - Chapter 11 #55
Learning Objective: 11-03 Prepare entries to account for short-term notes payable.
Type: Knowledge

56. Promissory notes:
A. Are negotiable.
B. Can be transferred from party to party by endorsement.
C. Are due on a specific date.
D. Can be current or long term.
E. All of these answers are correct.

Difficulty: Moderate
Larson - Chapter 11 #56
Learning Objective: 11-03 Prepare entries to account for short-term notes payable.
Type: Knowledge

57. Which of the following is created by the adjusting entry to recognize interest expense incurred but not yet paid?

A. Prepaid interest.
B. Unearned revenue.
C. Interest revenue.
D. Interest expense.
E. Notes payable.

Difficulty: Hard
Larson - Chapter 11 #57
Learning Objective: 11-03 Prepare entries to account for short-term notes payable.
Type: Application

58. West Coast Outdoor Co. signed a $8,000, 90-day, 4% interest-bearing note payable at the bank in exchange for cash. Which of the following journal entries should West Coast Outdoor Co. use to record the note?

A.

Cash	8,079	
Interest Expense	79	
Notes Payable		8,000

B.

Cash	8,000	
Notes Payable		8,000

C.

Notes Payable	8,000	
Cash		8,079
Interest Expense		79

D.

Cash	8,000	
Accounts Payable		8,000

E.

Notes Payable	8,079	
Interest Expense	79	
Cash		8,000

Difficulty: Moderate
Larson - Chapter 11 #58
Learning Objective: 11-03 Prepare entries to account for short-term notes payable.
Type: Application

59. MiniCompany borrowed $6,000 by signing an 8% interest-bearing 45-day note payable in exchange for an overdue accounts payable. To record this transaction, MiniCompany should prepare a journal entry that includes a:
A. Credit to Accounts Payable for $6,000.
B. Credit to Notes Payable for $6,000.
C. Debit to Cash for $6,000.
D. Debit to Notes Payable for $6,000.
E. Debit to Cash for $6,300.

Difficulty: Hard
Larson - Chapter 11 #59
Learning Objective: 11-03 Prepare entries to account for short-term notes payable.
Type: Application

60. An estimated liability:
A. Is an unknown liability of a certain amount.
B. Can be the result of a lawsuit.
C. Is a liability that may occur if a future event occurs.
D. Is a known obligation of an uncertain amount.
E. None of these answers is correct.

Difficulty: Easy
Larson - Chapter 11 #60
Learning Objective: 11-04 Account for estimated liabilities; including warranties and corporate income taxes.
Type: Knowledge

61. Estimated liabilities can arise from:
A. Warranties.
B. Property taxes.
C. Income taxes.
D. Employee benefits.
E. All of these answers are correct.

Difficulty: Easy
Larson - Chapter 11 #61
Learning Objective: 11-04 Account for estimated liabilities; including warranties and corporate income taxes.
Type: Knowledge

62. Employee vacation benefits:
A. Are estimated liabilities.
B. Are contingent liabilities.
C. Become an expense when the employee takes a vacation.
D. Are not recorded until the employee leaves.
E. Are not required by law.

Difficulty: Moderate
Larson - Chapter 11 #62
Learning Objective: 11-04 Account for estimated liabilities; including warranties and corporate income taxes.
Type: Knowledge

63. West Coast Outdoor Co. sold $22,000 worth of trampolines with a one year warranty. The company estimates that 2% of the sales will result in warranty work. West Coast Outdoor Co. should:
A. Recognize warranty expense at the time of sale.
B. Recognize warranty expense at the time warranty work is performed.
C. Recognize warranty liability at the time of sale.
D. Recognize warranty expense and warranty liability at the time of sale.
E. Recognize warranty expense at the time warranty work is performed and warranty liability at the time of sale.

Difficulty: Moderate
Larson - Chapter 11 #63
Learning Objective: 11-04 Account for estimated liabilities; including warranties and corporate income taxes.
Type: Application

64. West Coast Outdoor Co. estimates that warranty expense will be 1% of sales. The current period's sales were $740,000. The entry to record the warranty expense is:

A.

Estimated Warranty Liability	7,400	
Warranty Expense		7,400

B.

Warranty Expense	7,400	
Sales		7,400

C.

Warranty Expense	7,400	
Estimated Warranty Liability		7,400

D.

Estimated Warranty Payable	7,400	
Warranty Expense		7,400

E.

Estimated Warranty Liability	7,400	
Cash		7,400

Difficulty: Moderate
Larson - Chapter 11 #64
Learning Objective: 11-04 Account for estimated liabilities; including warranties and corporate income taxes.
Type: Application

65. A contingent liability:
A. Is a liability of a specific amount.
B. Is a potential obligation that depends on a future event arising out of a past transaction.
C. Is an obligation not requiring immediate payment.
D. Is an obligation arising from the purchase of goods or services on credit.
E. None of these answers is correct.

Difficulty: Easy
Larson - Chapter 11 #65
Learning Objective: 11-04 Account for estimated liabilities; including warranties and corporate income taxes.
Type: Knowledge

66. Contingent liabilities occur when the liability is:
A. Probable and can be reliably estimated.
B. Cannot be reliably estimated.
C. Known and determinable.
D. Reliably estimated.
E. All of these answers are correct.

Difficulty: Easy
Larson - Chapter 11 #66
Learning Objective: 11-04 Account for estimated liabilities; including warranties and corporate income taxes.
Type: Knowledge

67. Provisions must be recorded if:
A. The future event is probable and the amount can be reliably estimated.
B. The future event is unlikely.
C. The future event is probable, but the amount cannot be estimated.
D. The future event is unlikely, but the amount can be reliably estimated.
E. All of these answers are correct.

Difficulty: Moderate
Larson - Chapter 11 #67
Learning Objective: 11-04 Account for estimated liabilities; including warranties and corporate income taxes.
Type: Knowledge

68. Pending lawsuits:
A. Are always considered estimated liabilities.
B. Should always be recorded.
C. Should always be disclosed.
D. Should be disclosed if payment for damages is probable but the amount cannot be reliably estimated.
E. None of these answers is correct.

Difficulty: Hard
Larson - Chapter 11 #68
Learning Objective: 11-04 Account for estimated liabilities; including warranties and corporate income taxes.
Type: Knowledge

69. Uncertainties such as doubtful accounts:
A. Are not provisions because they are future events not arising out of past transactions.
B. Are provisions because they are future events arising from past transactions.
C. Should not be disclosed.
D. Are provisions because the amounts are uncertain.
E. Are not provisions since they relate to normal business activities.

Difficulty: Hard
Larson - Chapter 11 #69
Learning Objective: 11-04 Account for estimated liabilities; including warranties and corporate income taxes.
Type: Knowledge

70. Explain the difference between current and long-term liabilities.

Liabilities are probable future payments of assets or services that an entity is presently obligated to make as a result of past events. Current liabilities are due within one year or one operating cycle, whichever is longer. Long-term liabilities are due in more than one year or one operating cycle.

Difficulty: Moderate
Larson - Chapter 11 #70
Learning Objective: 11-01 Describe the characteristics of liabilities and explain the difference between current and long-term liabilities.
Type: Knowledge

71. Explain known current liabilities.

Known current liabilities are determined by agreements, contracts, or laws and are measurable with little uncertainty. Known liabilities include accounts payable, sales taxes payable, unearned revenues, and payroll liabilities.

Difficulty: Easy
Larson - Chapter 11 #71
Learning Objective: 11-02 Identify and describe known current liabilities.
Type: Knowledge

72. Explain the concept of interest.

Interest represents the payment to an owner of an asset in exchange for its use by a borrower.

Difficulty: Easy
Larson - Chapter 11 #72
Learning Objective: 11-03 Prepare entries to account for short-term notes payable.
Type: Knowledge

73. Discuss the types of estimated liabilities.

Estimated liabilities are known obligations of an uncertain amount, but an amount that can be estimated. These types of liabilities are often referred to as provisions. Warranties, income taxes, and some employee benefits are common types of estimated liabilities. Warranties are estimated liabilities because the obligation to repair defective merchandise exists at the time of sale. The amount of potential warranty work can be estimated based on past sales. Income taxes are estimated liabilities based on income earned by a corporation. The amount can be estimated based on the corporate tax rate. Employee benefits are generated as employees earn their wages. Amounts can be estimated based on contractual agreements or past experience.

Difficulty: Moderate
Larson - Chapter 11 #73
Learning Objective: 11-04 Account for estimated liabilities; including warranties and corporate income taxes.
Type: Knowledge

74. Discuss how to account for contingent liabilities.

A contingent liability exists when the liability is not probable or it cannot be estimated. Contingent liabilities are disclosed in the notes to the financial statements unless the possibility is remote that there will be an outflow of resources in which case, the item is not recorded nor disclosed.

Nov-03	Accounts Receivable	13,560	
	Sales		12,000
	HST Payable		1,560
	Cost of Goods Sold	9,500	
	Inventory		9,500
Nov-10	Cash	13,560	
	Accounts Receivable		13,560

Difficulty: Hard
Difficulty: Moderate
Larson - Chapter 11 #74
Learning Objective: 11-02 Identify and describe known current liabilities.
Learning Objective: 11-04 Account for estimated liabilities; including warranties and corporate income taxes.
Type: Application
Type: Knowledge

75. Breathe Therapeutic Company is located in Medicine Hat, Alberta and is a retailer of massage supplies. Beginning inventory is $70,000, and Breathe uses the perpetual inventory system. Complete the journal entries on the following dates, including 5% GST as applicable.

Oct-01	Breathe purchases $40,000 of merchandise from Robyn Massage Corp for cash.
Oct-12	Breathe sells $52,000 of massage products to a customer on credit terms n/45. The merchandise cost $40,000.
Oct-31	The customer pays for the October 12th sale.
Nov-10	Breathe remits the appropriate amount of GST to the government for the month of October.

Oct-01	Merchandise Inventory	40,000	
	GST Receivable	2,000	
	Cash		42,000
Oct-12	Accounts Receivable	54,600	
	Sales		52,000
	GST Payable		2,600
	Cost of Goods Sold	40,000	
	Merchandise Inventory		40,000
Oct-31	Cash	54,600	
	Accounts Receivable		54,600
Nov-10	GST Payable	2,600	
	GST Receivable		2,000
	Cash		600

Difficulty: Moderate
Larson - Chapter 11 #75
Learning Objective: 11-02 Identify and describe known current liabilities.
Type: Application

76. On November 16, 2015, Kinsmen Sports gave Source for Sports a 120-day, 8%, $120,000 note payable to extend a past due account payable.
What amount of interest expense should Source for Sports report for calendar 2015?

$1,183.56 = 45/365 × .08 × $120,000

Difficulty: Easy
Larson - Chapter 11 #76
Learning Objective: 11-03 Prepare entries to account for short-term notes payable.
Type: Application

77. On November 16, 2015, Source for Sports gave Kinsmen Sports a 90-day, 12%, $60,000 note payable to extend a past due account payable.
Prepare the journal entry for Source for Sports to record the note and the extension of the past due account.

Accounts Payable- Kinsmen Sports	60,000	
Notes Payable- Kinsmen Sports		60,000

Difficulty: Easy
Larson - Chapter 11 #77
Learning Objective: 11-03 Prepare entries to account for short-term notes payable.
Type: Application

78. On November 16, 2015, Williams Industrial gave Phillip Co. a 90-day, 8%, $80,000 note payable to extend a past due account payable.
Prepare the journal entry for Williams Industrial to record payment of the note on Feb 14, 2016. Williams Industrial recorded a December 31st year end adjusting entry.

Feb-14	Notes Payable	80,000.00	
	Interest Expense	789.04	
	Interest Payable	789.04	
	Cash		81,578.08

Interest Expense= 80,000 x .08 x 45/365 (Jan 1- Feb 14= 45 days)
Interet Payable= 80,000 x .08 x 45/365 (Nov 16- Dec 31= 45 days)

Difficulty: Moderate
Larson - Chapter 11 #78
Learning Objective: 11-03 Prepare entries to account for short-term notes payable.
Type: Application

79. On June 14 , Multi Sports received a 90-day note payable from Single Sport, instead of cash payment of an overdue account. The amount of the note was $45,000 at an interest rate of 10%.
What is the total amount of interest for the note?

$1,109.59 (90/365 × .10 × $45,000)

Difficulty: Easy
Larson - Chapter 11 #79
Learning Objective: 11-03 Prepare entries to account for short-term notes payable.
Type: Application

80. On June 14, Cool Sports gave a 90-day note payable to Quick Skis, instead of cash payment of an overdue account. The amount of the note was $85,000 at an interest rate of 12%.
Prepare the journal entry on Cool Sports books to record the note payable.

Accounts Payable- Quick Skis	85,000	
Notes Payable- Quick Skis		85,000

Difficulty: Easy
Larson - Chapter 11 #80
Learning Objective: 11-03 Prepare entries to account for short-term notes payable.
Type: Application

81. On June 14, Cool Sports gave a 90-day note payable to Slip and Slide Co., instead of cash payment of an overdue account. The amount of the note was $65,000 at an interest rate of 12%.
Prepare the journal entry and determine the maturity date for Cool Sports to record payment of the note.

Sep-12	Notes Payable- Slip and Slide Co.	65,000.00	
	Interest Expense	1,923.29	
	Cash		66,923.29

Interest Expense= 65,000 x .12 x 90/365

Difficulty: Moderate
Larson - Chapter 11 #81
Learning Objective: 11-03 Prepare entries to account for short-term notes payable.
Type: Application

82. On September 15, Lohr Co. borrowed $50,000 from Close Bank. The loan had an interest rate of 12% and was due in 60 days.
Prepare the journal entry for Lohr Co. to record the note.

Cash	50,000	
Notes Payable- Close Bank		50,000

Difficulty: Easy
Larson - Chapter 11 #82
Learning Objective: 11-03 Prepare entries to account for short-term notes payable.
Type: Application

83. On November 15, Lohr Co. borrowed $20,000 from Convenient Bank. The loan had an interest rate of 12% and was due in 120 days.
Prepare the journal entry to record the payment of the note on Lohr's books, assuming an adjusting entry was made at December 31st , Lohr Co.'s year end.

Notes Payable- Convenient Bank	20,000.00	
Interest Payable (20,000 x 12% x 46/365)	302.47	
Interest Expense (20,000 x 12 % x 74/365)	486.58	
Cash		20,789.04

Difficulty: Moderate
Larson - Chapter 11 #83
Learning Objective: 11-03 Prepare entries to account for short-term notes payable.
Type: Application

84. On November 16, Predator Company borrowed $112,000 from DT Bank. The loan had an interest rate of 10% and was due in 90 days. Predator Company's fiscal year-end is December 31.
Prepare the journal entry to record the receipt of the cash.

Cash	112,000	
Notes Payable- DT Bank		112,000

Difficulty: Easy
Larson - Chapter 11 #84
Learning Objective: 11-03 Prepare entries to account for short-term notes payable.
Type: Application

85. On November 16, Predator Company borrowed $112,000 from DT Bank. The loan had an interest rate of 10% and was due in 90 days. Predator Company's fiscal year-end is December 31.
Prepare the journal entry to record the interest due at December 31.

Interest Expense (112,000 x 10 % x 45/365)	1,380.82	
Interest Payable		1,380.82

Difficulty: Moderate
Larson - Chapter 11 #85
Learning Objective: 11-03 Prepare entries to account for short-term notes payable.
Type: Application

86. On November 16, Predator Company borrowed $112,000 from DT Bank. The loan had an interest rate of 10% and was due in 90 days. Predator Company's fiscal year-end is December 31.
Prepare the journal entry to record the payment of the note on Predator's books.

Notes Payable- DT Bank	112,000.00	
Interest Payable (112,000 x 10% x 45/365)	1,380.82	
Interest Expense (112,000 x 10% x 45/365)	1,380.82	
Cash		114,761.64

Difficulty: Hard
Larson - Chapter 11 #86
Learning Objective: 11-03 Prepare entries to account for short-term notes payable.
Type: Application

87. Elder Helpers Ltd estimates its income taxes at 35% of pre-tax income. For the quarter ended September 30, pre-tax income was $300,000. Prepare the journal entry to record the estimated income taxes and the subsequent remittance on October 5.

Sep-30	Income Tax Expense	105,000	
	Income Tax Payable		105,000
	300,000 x 35% = 105,000		
Oct-05	Income Tax Payable	105,000	
	Cash		105,000

Difficulty: Easy
Larson - Chapter 11 #87
Learning Objective: 11-04 Account for estimated liabilities; including warranties and corporate income taxes.
Type: Application

88. A company sells its product subject to a warranty that covers the cost of parts and labour for repairs during the six months after sale. Warranty costs are estimated to be 4.5% of sales for parts, and 1.5% of sales for labour. During the month of June, the company performed warranty work and used $8,000 worth of parts and paid $4,000 in wages for labour to do the warranty work. Sales for June amounted to $450,000.

(1) What account should be debited for the $4,000 in labour?
(2) What should be the amount of estimated warranty expense for June?
(3) If the Estimated Warranty Liability account had a $10,000 credit balance on May 31, what should be the account balance as of June 30?

(1) Estimated Warranty Liability
(2) $27,000 ($450,000 × (4.5% + 1.5%)
(3) $25,000 ($10,000 - $8,000 - $4,000 + $27,000)

Difficulty: Moderate
Larson - Chapter 11 #88
Learning Objective: 11-04 Account for estimated liabilities; including warranties and corporate income taxes.
Type: Application

89. Buy Best Company sells personal computers for $2,300 each. The price includes a two-year warranty. During 2015, the company sells 600 computers. On the basis of past experience, the warranty costs are estimated to be $150 per computer. The actual warranty costs paid by Buy Best during 2015 were $45,000. Prepare general journal entries to record the estimated warranty expense and the warranty payments during 2015.

Warranty Expense	90,000	
Estimated Warranty Liability		90,000
600 x $150 = $90,000		
Estimated Warranty Liabilty	45,000	
Cash		45,000

Difficulty: Moderate
Larson - Chapter 11 #89
Learning Objective: 11-04 Account for estimated liabilities; including warranties and corporate income taxes.
Type: Application

90. Honest Computers sells computers with a 6-month warranty. In January, the company sold 35,000 computers at $2,600 each and 1,500 computers were returned for repairs. The total repair costs amounted to $185,000. It is estimated that 3% of all units sold will need repairs under warranty at an estimated cost of $300 per unit. Prepare the journal entry to record warranty expense for January.

Jan-31	Warranty Expense	315,000	
	Estimated Warranty Liability		315,000
	35,000 x 0.03 x $300		

Difficulty: Moderate
Larson - Chapter 11 #90
Learning Objective: 11-04 Account for estimated liabilities; including warranties and corporate income taxes.
Type: Application

91. _____ are obligations expected to be paid using current assets or by creating other current liabilities.
Current liabilities

Difficulty: Easy
Larson - Chapter 11 #91
Learning Objective: 11-01 Describe the characteristics of liabilities and explain the difference between current and long-term liabilities.
Type: Knowledge

92. Unearned revenues are amounts received _____.
In advance from customers for future products or services

Difficulty: Moderate
Larson - Chapter 11 #92
Learning Objective: 11-02 Identify and describe known current liabilities.
Type: Knowledge

93. Taxable goods or services on which GST is calculated and that include everything except zero-rated and exempt supplies are called _____.
Taxable supplies

Difficulty: Moderate
Larson - Chapter 11 #93
Learning Objective: 11-02 Identify and describe known current liabilities.
Type: Knowledge

94. A refund of GST would be received if the balance in the GST _____ account exceeded the balance in the GST _____ account.
Receivable; Payable

Difficulty: Easy
Larson - Chapter 11 #94
Learning Objective: 11-02 Identify and describe known current liabilities.
Type: Knowledge

95. The difference between the amount received from a promissory note and the amount repaid is _____.
Interest

Difficulty: Easy
Larson - Chapter 11 #95
Learning Objective: 11-03 Prepare entries to account for short-term notes payable.
Type: Knowledge

96. Contingent liabilities are disclosed when the liability is not _____ or it cannot be _____.
probable; reliably estimated

Difficulty: Hard
Larson - Chapter 11 #96
Learning Objective: 11-04 Account for estimated liabilities; including warranties and corporate income taxes.
Type: Knowledge

97. _____ is to compensate the owner of note payable for its use by a borrower until payment is made.
Interest

Difficulty: Easy
Larson - Chapter 11 #97
Learning Objective: 11-03 Prepare entries to account for short-term notes payable.
Type: Knowledge

98. Classify each of the following items as either:

1. Long-term liability.
2. Current liability.
3. Not a liability

30-day promissory note
Car payments on a 4-year loan due this year
Salaries payable
Bonds payable
Employee deductions
Income taxes payable
Mortgage payments on a 30-year loan due this year
Mortgage payments on a 30-year loan due next year
Warranty work completed this year
Accounts payable

30-day promissory note 2
Car payments on a 4-year loan due this year 2
Salaries payable 2
Bonds payable 1
Employee deductions 2
Income taxes payable 2
Mortgage payments on a 30-year loan due this year 2
Mortgage payments on a 30-year loan due next year 1
Warranty work completed this year 3
Accounts payable 2

Difficulty: Moderate
Larson - Chapter 11 #98
Learning Objective: 11-01 Describe the characteristics of liabilities and explain the difference between current and long-term liabilities.
Learning Objective: 11-02 Identify and describe known current liabilities.
Learning Objective: 11-03 Prepare entries to account for short-term notes payable.
Learning Objective: 11-04 Account for estimated liabilities; including warranties and corporate income taxes.
Type: Application

99. Classify each of the following items as either:

1. Known current liability.
2. Estimated liability.
3. Contingent liability.

Pending lawsuit
Warranty liability on $150,000 worth of products sold
Accounts payable
Income taxes payable
CPP payable
Interest payable
Environmental liability
Property taxes payable
Payroll taxes payable
Unearned revenues

Pending lawsuit 3
Warranty liability on $150,000 worth of products sold 2
Accounts payable 1
Income taxes payable 1
CPP payable 1
Interest payable 1
Environmental liability 3
Property taxes payable 2
Payroll taxes payable 1
Unearned revenues 1

Difficulty: Moderate
Larson - Chapter 11 #99
Learning Objective: 11-01 Describe the characteristics of liabilities and explain the difference between current and long-term liabilities.
Learning Objective: 11-02 Identify and describe known current liabilities.
Learning Objective: 11-03 Prepare entries to account for short-term notes payable.
Learning Objective: 11-04 Account for estimated liabilities; including warranties and corporate income taxes.
Type: Application

100. Match each of the following terms with the appropriate definition.

1. Gross pay	Total compensation earned by an employee.	**6**
2. Short-term note payable	Obligations due within a year or the company's operating cycle, whichever is longer.	**2**
3. Taxable supplies	The portion of long-term debt that is due within one year.	**5**
4. Current portion of long-term debt	Taxable goods or services on which GST is calculated and includes everything except zero-rated and exempt supplies.	**3**
5. Current liabilities	A current obligation in the form of a written promissory note.	**1**
6. Known liabilities	Oigations of a company with little uncertainty; set by agreements, contracts, or laws.	**4**

Difficulty: Moderate
Larson - Chapter 11 #100
Learning Objective: 11-01 Describe the characteristics of liabilities and explain the difference between current and long-term liabilities.
Learning Objective: 11-02 Identify and describe known current liabilities.
Learning Objective: 11-03 Prepare entries to account for short-term notes payable.
Learning Objective: 11-04 Account for estimated liabilities; including warranties and corporate income taxes.
Type: Knowledge

101. Match each of the following terms with the appropriate definition.

1. Warranty	Amounts withheld by the employer from employees' gross pay for eventual payment to governments and others.	**2**
2. Payroll liabilities	Obligations of a company not requiring payment within one year.	**4**
3. Demand loan	A liability not having a fixed due date that is payable on the creditor's demand.	**3**
4. Long-term liability	Gross pay less all deductions.	**7**
5. Short-term note payable	A potential liability that depends on a future event arising out of a past transaction.	**8**
6. Estimated liability	Current obligation in the form of a written promissory note.	**5**
7. Net pay	An agreement that obligates the seller or manufacturer to repair or replace a product when it breaks or otherwise fails to perform properly within a specified period.	**1**
8. Contingent liability	Obligation of an uncertain amount that can be reliably estimated.	**6**

Difficulty: Moderate
Larson - Chapter 11 #101
Learning Objective: 11-01 Describe the characteristics of liabilities and explain the difference between current and long-term liabilities.
Learning Objective: 11-02 Identify and describe known current liabilities.
Learning Objective: 11-03 Prepare entries to account for short-term notes payable.
Learning Objective: 11-04 Account for estimated liabilities; including warranties and corporate income taxes.
Type: Knowledge

c11 Summary

Category	*# of Questions*
Difficulty: Easy	39
Difficulty: Hard	15
Difficulty: Moderate	48
Larson - Chapter 11	101
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Learning Objective: 11-02 Identify and describe known current liabilities.	30
Learning Objective: 11-03 Prepare entries to account for short-term notes payable.	29
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Type: Application	27
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