

Exam

Name \_\_\_\_\_

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) 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 non-current liability when they prepare the December 31, 2015 balance sheet? 1) \_\_\_\_\_
- A) \$800,000.
  - B) \$900,000.
  - C) \$1,000,000.
  - D) \$700,000.
  - E) Nothing. Disclose in a note to the financial statements.

Answer: D

Explanation: A)  
B)  
C)  
D)  
E)

- 2) Pending lawsuits: 2) \_\_\_\_\_
- A) Are always considered estimated liabilities.
  - B) Should always be disclosed.
  - C) Should always be recorded.
  - D) Should be disclosed if payment for damages is probable but the amount cannot be reliably estimated.
  - E) None of these answers is correct.

Answer: D

Explanation: A)  
B)  
C)  
D)  
E)

3) 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: 3) \_\_\_\_\_

- A) Recognize warranty expense at the time warranty work is performed.
- B) Recognize warranty liability at the time of sale.
- C) Recognize warranty expense at the time of sale.
- D) Recognize warranty expense at the time warranty work is performed and warranty liability at the time of sale.
- E) Recognize warranty expense and warranty liability at the time of sale.

Answer: E

- Explanation:
- A)
  - B)
  - C)
  - D)
  - E)

4) The current portion of long-term debt: 4) \_\_\_\_\_

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

Answer: E

- Explanation:
- A)
  - B)
  - C)
  - D)
  - E)

5) Known liabilities: 5) \_\_\_\_\_

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

Answer: E

- Explanation:
- A)
  - B)
  - C)
  - D)
  - E)

- 6) A contingent liability: 6) \_\_\_\_\_
- 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 arising from the purchase of goods or services on credit.
  - D) Is an obligation not requiring immediate payment.
  - E) None of these answers is correct.

Answer: B

- Explanation:
- A)
  - B)
  - C)
  - D)
  - E)

- 7) 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: 7) \_\_\_\_\_
- A) Debit to Cash for \$6,000.
  - B) Debit to Cash for \$6,300.
  - C) Credit to Notes Payable for \$6,000.
  - D) Debit to Notes Payable for \$6,000.
  - E) Credit to Accounts Payable for \$6,000.

Answer: C

- Explanation:
- A)
  - B)
  - C)
  - D)
  - E)

- 8) Payroll liabilities for current employees are: 8) \_\_\_\_\_
- A) Current liabilities.
  - B) Estimated liabilities.
  - C) Can be either current or long-term depending on when workers retire.
  - D) Contingent liabilities.
  - E) None of these answers is correct.

Answer: A

- Explanation:
- A)
  - B)
  - C)
  - D)
  - E)

9) Which of the following items below is recorded as an estimate when initially recognized: 9) \_\_\_\_\_  
A) Notes payable  
B) Warranty obligation  
C) Unearned revenue  
D) CPP payable

Answer: B  
Explanation: A)  
B)  
C)  
D)

10) Fees accepted in advance from a client: 10) \_\_\_\_\_  
A) Are recorded as liabilities.  
B) Do not increase assets.  
C) Increase income.  
D) Are recorded as earned revenues on the income statement.  
E) None of these answers is correct.

Answer: A  
Explanation: A)  
B)  
C)  
D)  
E)

11) The characteristics of a liability include: 11) \_\_\_\_\_  
A) A liability can be current or noncurrent.  
B) Requirement of future payment of assets or rendering of services.  
C) Occurrence of a past transaction or event.  
D) Existence of a present obligation.  
E) All of these answers are correct.

Answer: E  
Explanation: A)  
B)  
C)  
D)  
E)

12) Liabilities: 12) \_\_\_\_\_  
A) Must be certain.  
B) Can be reliably estimated.  
C) Must be for a specific amount.  
D) Must have a date for payment.  
E) Must have a known payee.

Answer: B  
Explanation: A)  
B)  
C)  
D)  
E)

- 13) A short-term note payable: 13) \_\_\_\_\_
- A) Is a written promise to pay a specified amount.
  - B) Is not recorded until it is repaid.
  - C) Is an estimated liability.
  - D) Is a contingent liability.
  - E) Usually does not bear interest.

Answer: A

- Explanation:
- A)
  - B)
  - C)
  - D)
  - E)

- 14) Provincial sales tax payable: 14) \_\_\_\_\_
- A) Is a business expense.
  - B) Is a contingent liability.
  - C) Is a current liability for retailers.
  - D) Is an estimated liability.
  - E) All of these answers are correct.

Answer: C

- Explanation:
- A)
  - B)
  - C)
  - D)
  - E)

- 15) The receipt of \$6,000 in advance ticket sales would be recorded as: 15) \_\_\_\_\_
- A) Debit Cash, credit Revenue Payable.
  - B) Debit Cash, credit Unearned Revenue.
  - C) Debit Unearned Revenue, credit Sales.
  - D) Debit Unearned Revenue, credit Cash.
  - E) Debit Sales, credit Unearned Revenue.

Answer: B

- Explanation:
- A)
  - B)
  - C)
  - D)
  - E)

16) Long-term liabilities:

16) \_\_\_\_\_

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

Answer: A

- Explanation:
- A)
  - B)
  - C)
  - D)
  - E)

17) 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:

17) \_\_\_\_\_

A)

<b>Warranty Expense</b>	<b>7,400</b>	
<b>    Estimated Warranty Liability</b>		<b>7,400</b>

B)

<b>Estimated Warranty Liability</b>	<b>7,400</b>	
<b>    Cash</b>		<b>7,400</b>

C)

<b>Estimated Warranty Liability</b>	<b>7,400</b>	
<b>    Warranty Expense</b>		<b>7,400</b>

D)

<b>Warranty Expense</b>	<b>7,400</b>	
<b>    Sales</b>		<b>7,400</b>

E)

<b>Estimated Warranty Payable</b>	<b>7,400</b>	
<b>    Warranty Expense</b>		<b>7,400</b>

Answer: A

- Explanation:
- A)
  - B)
  - C)
  - D)
  - E)

18) During 2017, Smith Electronics sold 250 microwaves each at \$950 per unit. Each microwave has one year warranty. In Smith estimate, it will cost them \$62 per unit, if a unit is brought in under warranty for repair. During 2017, Smith spent \$12,500 on warranty costs for the appliances sold in 2017. At the end of the 2017 the warranty liability and the warranty expense related to these sales would be:

18) \_\_\_\_\_

- A) Warranty liability: 3,000; Warranty expense: 15,500
- B) Warranty liability: 12,500; Warranty expense: 12,500
- C) Warranty liability: 3,000; Warranty expense: 12,500
- D) Warranty liability: 15,500; Warranty expense: 15,500

Answer: A

Explanation: A)  $250 \times 62 = 15,500$  warranty expense;  
 $15,500 - 12,500 = 3,000$  warranty liability

B)  $250 \times 62 = 15,500$  warranty expense;  
 $15,500 - 12,500 = 3,000$  warranty liability

C)  $250 \times 62 = 15,500$  warranty expense;  
 $15,500 - 12,500 = 3,000$  warranty liability

D)  $250 \times 62 = 15,500$  warranty expense;  
 $15,500 - 12,500 = 3,000$  warranty liability

19) An estimated liability:

19) \_\_\_\_\_

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

Answer: A

Explanation: A)  
B)  
C)  
D)  
E)

20) Unearned revenues are:

20) \_\_\_\_\_

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

Answer: A

Explanation: A)  
B)  
C)  
D)  
E)

- 21) Provisions must be recorded if: 21) \_\_\_\_\_
- A) The future event is probable, but the amount cannot be estimated.
  - B) The future event is unlikely.
  - C) The future event is unlikely, but the amount can be reliably estimated.
  - D) The future event is probable and the amount can be reliably estimated.
  - E) All of these answers are correct.

Answer: D

Explanation: A)  
B)  
C)  
D)  
E)

- 22) Promissory notes: 22) \_\_\_\_\_
- A) Are due on a specific date.
  - B) Are negotiable.
  - C) Can be current or non-current.
  - D) Can be transferred from party to party by endorsement.
  - E) All of these answers are correct.

Answer: E

Explanation: A)  
B)  
C)  
D)  
E)

- 23) Obligations due to be paid within one year or the company's operating cycle, whichever is longer, are: 23) \_\_\_\_\_
- A) Current assets.
  - B) Operating cycle liabilities.
  - C) Non current liabilities.
  - D) Revenues.
  - E) Current liabilities.

Answer: E

Explanation: A)  
B)  
C)  
D)  
E)

- 24) Contingent liabilities occur when the liability is: 24) \_\_\_\_\_
- A) Known and determinable.
  - B) Cannot be reliably estimated.
  - C) Probable and can be reliably estimated.
  - D) Reliably estimated.
  - E) All of these answers are correct.

Answer: B

- Explanation: A)  
 B)  
 C)  
 D)  
 E)

- 25) Employee vacation benefits: 25) \_\_\_\_\_
- A) Are not recorded until the employee leaves.
  - B) Are contingent liabilities.
  - C) Are not required by law.
  - D) Become an expense when the employee takes a vacation.
  - E) Are estimated liabilities.

Answer: E

- Explanation: A)  
 B)  
 C)  
 D)  
 E)

- 26) 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? 26) \_\_\_\_\_

- A)
- |                         |              |              |
|-------------------------|--------------|--------------|
| <b>Cash</b>             | <b>8,000</b> |              |
| <b>Accounts Payable</b> |              | <b>8,000</b> |
- B)
- |                         |              |              |
|-------------------------|--------------|--------------|
| <b>Notes Payable</b>    | <b>8,000</b> |              |
| <b>Cash</b>             |              | <b>8,079</b> |
| <b>Interest Expense</b> |              | <b>79</b>    |
- C)
- |                         |              |              |
|-------------------------|--------------|--------------|
| <b>Cash</b>             | <b>8,079</b> |              |
| <b>Interest Expense</b> | <b>79</b>    |              |
| <b>Notes Payable</b>    |              | <b>8,000</b> |

D)

<b>Notes Payable</b>	<b>8,079</b>	
<b>Interest Expense</b>	<b>79</b>	
<b>Cash</b>		<b>8,000</b>

E)

<b>Cash</b>	<b>8,000</b>	
<b>Notes Payable</b>		<b>8,000</b>

Answer: E

Explanation: A)  
B)  
C)  
D)  
E)

- 27) A combined GST and PST rate of 12% applied to taxable supplies is called: 27) \_\_\_\_\_
- A) Input Tax Credit.
  - B) Harmonized Sales Tax.
  - C) Zero-rated tax.
  - D) Combined Sales Tax.
  - E) None of these answers is correct.

Answer: B

Explanation: A)  
B)  
C)  
D)  
E)

- 28) Gross pay is: 28) \_\_\_\_\_
- A) Deductions withheld by an employer.
  - B) Total compensation earned by an employee.
  - C) The amount of the paycheque.
  - D) Take-home pay.
  - E) Salaries after taxes are deducted.

Answer: B

Explanation: A)  
B)  
C)  
D)  
E)

29) Uncertainties such as doubtful accounts:

29) \_\_\_\_\_

- A) Are provisions because the amounts are uncertain.
- B) Should not be disclosed.
- C) Are provisions because they are future events arising from past transactions.
- D) Are not provisions because they are future events not arising out of past transactions.
- E) Are not provisions since they relate to normal business activities.

Answer: E

Explanation: A)  
B)  
C)  
D)  
E)

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

30) \_\_\_\_\_

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

Answer: B

Explanation: A)  
B)  
C)  
D)  
E)

31) Accounts payable:

31) \_\_\_\_\_

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

Answer: A

Explanation: A)  
B)  
C)  
D)  
E)

32) The employer should record payroll deductions as:

32) \_\_\_\_\_

- A) Current liabilities.
- B) Employee receivables.
- C) Payroll taxes expense.
- D) Wages payable.
- E) Employee payables.

Answer: A

- Explanation:
- A)
  - B)
  - C)
  - D)
  - E)

33) Estimated liabilities can arise from:

33) \_\_\_\_\_

- A) Property taxes.
- B) Warranties.
- C) Income taxes.
- D) Employee benefits.
- E) All of these answers are correct.

Answer: E

- Explanation:
- A)
  - B)
  - C)
  - D)
  - E)

34) Unearned revenue is initially recognized with a:

34) \_\_\_\_\_

- A) Credit to revenue.
- B) Credit to revenue payable.
- C) Debit to unearned revenue.
- D) Debit to revenue.
- E) Credit to unearned revenue.

Answer: E

- Explanation:
- A)
  - B)
  - C)
  - D)
  - E)

- 35) Short-term notes payable: 35) \_\_\_\_\_
- A) Can replace an account payable.
  - B) Are usually interest bearing.
  - C) Usually represent money borrowed from a bank.
  - D) Are recorded as current liabilities.
  - E) All of these answers are correct.

Answer: E

Explanation: A)  
B)  
C)  
D)  
E)

- 36) Which of the following accounting policy is being observed when we recognize a warranty obligation? 36) \_\_\_\_\_
- A) Full disclosure
  - B) Consistency
  - C) Matching
  - D) Materiality
  - E) Timeliness

Answer: C

Explanation: A)  
B)  
C)  
D)  
E)

- 37) The difference between the amount received from a note payable and the amount repaid is: 37) \_\_\_\_\_
- A) Principal.
  - B) Interest.
  - C) Face value.
  - D) Premium.
  - E) Discount.

Answer: B

Explanation: A)  
B)  
C)  
D)  
E)

38) Obligations not expected to be paid within one year are reported as:

38) \_\_\_\_\_

- A) Current liabilities.
- B) Long term liabilities.
- C) Current assets.
- D) Operating cycle liabilities.
- E) Revenues.

Answer: B

Explanation: A)  
B)  
C)  
D)  
E)

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

39) 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.

39) \_\_\_\_\_

Prepare the journal entry to record the interest due at December 31.

Answer:

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

Explanation:

40) 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.

40) \_\_\_\_\_

Prepare the journal entry to record the payment of the note on Predator's books.

Answer:

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

Explanation:

41) During November 2017, Sunset Airlines sold out all of its eight flights going from Toronto to Cuba. Two flights depart in December, 2017 and six flights depart in January 2018. Sunset collected \$1,960,000 in November 2017 for the flights. Sunset's year end is December 31. 41) \_\_\_\_\_

Required:

What adjusting entry would be needed to recognize revenue for 2017? Date the entry.

What would be the value of the liability on Sunset's Balance Sheet at December 31, 2017? State if the liability is current or non-current.

Answer: a)

December 31, 2017		
Unearned Revenue (Advance ticket sales)	490,000	
Flight Revenue		490,000

Current Liability = 1,470,000

Explanation:

42) 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. 42) \_\_\_\_\_

What amount of interest expense should Source for Sports report for calendar 2015?

Answer:  $\$1,183.56 = 45/365 \times .08 \times \$120,000$

Explanation:

43) Discuss the types of estimated liabilities. 43) \_\_\_\_\_

Answer: 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.

Explanation:

44) Discuss how to account for contingent liabilities.

44) \_\_\_\_\_

Answer: 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.

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

Explanation:

45) 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%.

45) \_\_\_\_\_

What is the total amount of interest for the note?

Answer: \$1,109.59 (90/365 x .10 x \$45,000)

Explanation:

46) 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.

46) \_\_\_\_\_

Prepare the journal entry for Lohr Co. to record the note.

Answer:

<b>Cash</b>	<b>50,000</b>	
<b>Notes Payable- Close Bank</b>		<b>50,000</b>

Explanation:

47) Explain known current liabilities. 47) \_\_\_\_\_

Answer: 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.

Explanation:

48) 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. 48) \_\_\_\_\_

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?

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

Explanation:

49) 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%. 49) \_\_\_\_\_

Prepare the journal entry and determine the maturity date for Cool Sports to record payment of the note.

Answer:

	Sep-12	Notes Payable- Slip and Slide Co.	65,000.00
		Interest Expense	1,923.29
		Cash	66,923.29
		<b>Interest Expense= <math>65,000 \times .12 \times 90/365</math></b>	

Explanation:

50) 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. 50) \_\_\_\_\_

Prepare the journal entry to record the payment of the note on Lohr's books, assuming an adjusting entry was made at December 31<sup>st</sup>, Lohr Co.'s year end.

Answer:

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

Explanation:

51) 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. 51) \_\_\_\_\_

Prepare the journal entry to record the receipt of the cash.

Answer:

<b>Cash</b>	<b>112,000</b>	
<b>Notes Payable- DT Bank</b>		<b>112,000</b>

Explanation:

52) On November 16, 2015, Williams Industrial gave Phillip Co. a 90-day, 8%, \$80,000 note payable to extend a past due account payable. 52) \_\_\_\_\_

Prepare the journal entry for Williams Industrial to record payment of the note on Feb 14, 2016. Williams Industrial recorded a December 31<sup>st</sup> year end adjusting entry.

Answer:

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)		

Explanation:

- 53) 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. 53) \_\_\_\_\_

Answer:

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

Explanation:

- 54) Explain the difference between current and long-term liabilities. 54) \_\_\_\_\_

Answer: 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.

Explanation:

- 55) Explain the concept of interest. 55) \_\_\_\_\_

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

Explanation:

- 56) 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. 56) \_\_\_\_\_

Answer:

<b>Warranty Expense</b>	<b>90,000</b>	
<b>Estimated Warranty Liability</b>		<b>90,000</b>
<b>600 x \$150 = \$90,000</b>		
<b>Estimated Warranty Liability</b>	<b>45,000</b>	
<b>Cash</b>		<b>45,000</b>

Explanation:

57) 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.

57) \_\_\_\_\_

Answer:

<b>Jan-31 Warranty Expense</b>	<b>315,000</b>	
<b>Estimated Warranty Liability</b>		<b>315,000</b>
<b>35,000 x 0.03 x \$300</b>		

Explanation:

58) 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.

58) \_\_\_\_\_

- 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.

Answer:

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

Explanation:

- 59) 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%. 59) \_\_\_\_\_

Prepare the journal entry on Cool Sports books to record the note payable.

Answer:

<b>Accounts Payable- Quick Skis</b>	<b>85,000</b>	
<b>Notes Payable- Quick Skis</b>		<b>85,000</b>

Explanation:

- 60) 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. 60) \_\_\_\_\_

Prepare the journal entry for Source for Sports to record the note and the extension of the past due account.

Answer:

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

Explanation:

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 61) Amounts received in advance from a customer for future products or services are initially recorded as liabilities. 61) \_\_\_\_\_

Answer:  True       False

Explanation:

- 62) Known liabilities are agreements, contracts, or laws that are measurable and have little uncertainty. 62) \_\_\_\_\_

Answer:  True       False

Explanation:

- 63) The accounting for a contingent liability is the same as for a provision. 63) \_\_\_\_\_

Answer:  True       False

Explanation:

- 64) A gift card is an example of a contingent liability. 64) \_\_\_\_\_

Answer:  True       False

Explanation:

- 65) A company can have a liability even if the amount of the obligation is uncertain. 65) \_\_\_\_\_

Answer:  True       False

Explanation:

- 66) Estimated liabilities include employee health benefits, property taxes, and warranties. 66) \_\_\_\_\_  
Answer: True  False  
Explanation:
- 67) Long-term liabilities are obligations of a company requiring payment within one year. 67) \_\_\_\_\_  
Answer: True  False  
Explanation:
- 68) The matching principle requires that the total interest expense be allocated over the term of the note. 68) \_\_\_\_\_  
Answer: True  False  
Explanation:
- 69) A note payable can be used to extend the credit period for an account payable. 69) \_\_\_\_\_  
Answer:  True  False  
Explanation:
- 70) The relevance principle requires that contingent assets be recorded. 70) \_\_\_\_\_  
Answer: True  False  
Explanation:
- 71) Unearned revenue is another name for sales revenue. 71) \_\_\_\_\_  
Answer: True  False  
Explanation:
- 72) A pending lawsuit is an example of a contingent liability. 72) \_\_\_\_\_  
Answer:  True  False  
Explanation:
- 73) Gross pay is the same as net pay. 73) \_\_\_\_\_  
Answer: True  False  
Explanation:
- 74) Recording provisions is required when it is probable that the liability will occur and the amount can be reasonably estimated. 74) \_\_\_\_\_  
Answer:  True  False  
Explanation:
- 75) Provincial Sales Tax Payable is a tax levied on sales to all final consumers of taxable products. 75) \_\_\_\_\_  
Answer:  True  False  
Explanation:
- 76) A long-term liability can have a current component. 76) \_\_\_\_\_  
Answer:  True  False  
Explanation:

- 77) 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. 77) \_\_\_\_\_  
 Answer:  True  False  
 Explanation:
- 78) The stated interest rate on a short-term note payable is to compensate for the time until payment is made. 78) \_\_\_\_\_  
 Answer:  True  False  
 Explanation:
- 79) 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. 79) \_\_\_\_\_  
 Answer:  True  False  
 Explanation:
- 80) Management can withhold any information regarding future events if releasing the information could cause a share price decline. 80) \_\_\_\_\_  
 Answer:  True  False  
 Explanation:
- 81) Both partnerships and corporations calculate an income tax liability based on their taxable incomes, but proprietorships do not. 81) \_\_\_\_\_  
 Answer:  True  False  
 Explanation:
- 82) 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. 82) \_\_\_\_\_  
 Answer:  True  False  
 Explanation:
- 83) 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. 83) \_\_\_\_\_  
 Answer:  True  False  
 Explanation:
- 84) A liability exists because of a past event that creates a future obligation for future sacrifices. 84) \_\_\_\_\_  
 Answer:  True  False  
 Explanation:
- 85) Sales taxes payable is credited and cash is debited when firms send sales taxes collected from customers to the government. 85) \_\_\_\_\_  
 Answer:  True  False  
 Explanation:

- 86) 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. 86) \_\_\_\_\_  
 Answer:  True  False  
 Explanation:
- 87) An estimated liability is a known obligation of an uncertain amount that can be reasonably estimated. 87) \_\_\_\_\_  
 Answer:  True  False  
 Explanation:
- 88) 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. 88) \_\_\_\_\_  
 Answer:  True  False  
 Explanation:
- 89) All expected future payments are liabilities. 89) \_\_\_\_\_  
 Answer:  True  False  
 Explanation:
- 90) Estimated liabilities are also referred to as provisions. 90) \_\_\_\_\_  
 Answer:  True  False  
 Explanation:
- 91) Trade accounts payable are amounts owed to suppliers for products or services purchased on credit. 91) \_\_\_\_\_  
 Answer:  True  False  
 Explanation:
- 92) Goods and Services Tax (GST) is not paid by a wholesaler. 92) \_\_\_\_\_  
 Answer:  True  False  
 Explanation:
- 93) 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. 93) \_\_\_\_\_  
 Answer:  True  False  
 Explanation:
- 94) A warranty is a contingent liability. 94) \_\_\_\_\_  
 Answer:  True  False  
 Explanation:
- 95) Contingent assets should be recognized as soon as they are probable and can be reliably estimated. 95) \_\_\_\_\_  
 Answer:  True  False  
 Explanation:

Answer Key  
 Testname: C10

- 1) D
- 2) D
- 3) E
- 4) E
- 5) E
- 6) B
- 7) C
- 8) A
- 9) B
- 10) A
- 11) E
- 12) B
- 13) A
- 14) C
- 15) B
- 16) A
- 17) A
- 18) A
- 19) A
- 20) A
- 21) D
- 22) E
- 23) E
- 24) B
- 25) E
- 26) E
- 27) B
- 28) B
- 29) E
- 30) B
- 31) A
- 32) A
- 33) E
- 34) E
- 35) E
- 36) C
- 37) B
- 38) B
- 39)

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

40)			
<b>Notes Payable- DT Bank</b>	<b>112,000.00</b>		
<b>Interest Payable</b> ( 112,000 x 10% x 45/365)	<b>1,380.82</b>		
<b>Interest Expense</b> (112,000 x 10% x 45/365)	<b>1,380.82</b>		
<b>Cash</b>			<b>114,761.64</b>

41) a)

December 31, 2017		
Unearned Revenue (Advance ticket sales)	490,000	
Flight Revenue		490,000

Current Liability = 1,470,000

42)  $\$1,183.56 = 45/365 \times .08 \times \$120,000$

43) 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.

44) 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.

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

45)  $\$1,109.59 (90/365 \times .10 \times \$45,000)$

46)

<b>Cash</b>	<b>50,000</b>	
<b>Notes Payable- Close Bank</b>		<b>50,000</b>

47) 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.

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

49)

Sep-12	Notes Payable- Slip and Slide Co.	65,000.00	
	Interest Expense	1,923.29	
	Cash		66,923.29
	Interest Expense= $65,000 \times .12 \times 90/365$		

50)

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

51)

<b>Cash</b>	<b>112,000</b>	
<b>Notes Payable- DT Bank</b>		<b>112,000</b>

52)

Feb-14	Notes Payable	80,000.00	
	Interest Expense	789.04	
	Interest Payable	789.04	
	Cash		81,578.08
	Interest Expense= $80,000 \times .08 \times 45/365$ (Jan 1- Feb 14= 45 days)		
	Interet Payable= $80,000 \times .08 \times 45/365$ (Nov 16- Dec 31= 45 days)		

53)

<b>Sep-30</b>	<b>Income Tax Expense</b>	<b>105,000</b>	
	<b>Income Tax Payable</b>		<b>105,000</b>
	<b><math>300,000 \times 35\% = 105,000</math></b>		

<b>Oct-05</b>	<b>Income Tax Payable</b>	<b>105,000</b>	
	<b>Cash</b>		<b>105,000</b>

- 54) 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.
- 55) Interest represents the payment to an owner of an asset in exchange for its use by a borrower.

56)

<b>Warranty Expense</b>	<b>90,000</b>	
<b>Estimated Warranty Liability</b>		<b>90,000</b>
<b>600 x \$150 = \$90,000</b>		

<b>Estimated Warranty Liability</b>	<b>45,000</b>	
<b>Cash</b>		<b>45,000</b>

57)

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

58)

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

59)

<b>Accounts Payable- Quick Skis</b>	<b>85,000</b>	
<b>Notes Payable- Quick Skis</b>		<b>85,000</b>

60)

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

- 61) TRUE
- 62) TRUE
- 63) FALSE
- 64) FALSE
- 65) TRUE

Answer Key  
Testname: C10

- 66) FALSE
- 67) FALSE
- 68) FALSE
- 69) TRUE
- 70) FALSE
- 71) FALSE
- 72) TRUE
- 73) FALSE
- 74) TRUE
- 75) TRUE
- 76) TRUE
- 77) TRUE
- 78) TRUE
- 79) TRUE
- 80) FALSE
- 81) FALSE
- 82) TRUE
- 83) FALSE
- 84) FALSE
- 85) FALSE
- 86) TRUE
- 87) TRUE
- 88) FALSE
- 89) FALSE
- 90) TRUE
- 91) TRUE
- 92) FALSE
- 93) FALSE
- 94) FALSE
- 95) FALSE