***Horngren's Accounting, Vol. 2, Cdn. Ed., 12e* (Miller-Nobles)**

**Chapter 11 Current Liabilities and Payroll**

11.1 Account for current liabilities of a known amount

1) Accrued interest on a note payable should be credited to interest payable.

Answer: TRUE

Diff: 1 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Factual

Cognitive Taxon: Remember

2) Interest payable is a contra liability account and is deducted from the note payable on the balance sheet.

Answer: FALSE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Factual

Cognitive Taxon: Remember

3) A $45,000, 10%, 90-day note payable comes to maturity. The amount to be paid at maturity including interest is $43,890.41.

Answer: FALSE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

4) An unearned revenue arises when a company receives cash from its customers in advance of earning the revenue.

Answer: TRUE

Diff: 1 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Factual

Cognitive Taxon: Remember

5) Current portion of long-term debt refers to the amount of principle on a note payable that must be paid within a year or an operating cycle.

Answer: TRUE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Factual

Cognitive Taxon: Remember

6) The entry to record unearned revenue received in advance includes a debit to unearned revenue and a credit to cash.

Answer: FALSE

Diff: 1 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Factual

Cognitive Taxon: Understand

7) Sales tax payable is recorded as a debit when recording a sale of merchandise.

Answer: FALSE

Diff: 1 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Factual

Cognitive Taxon: Understand

8) The failure to record an accrued liability causes a company to overstate its net income.

Answer: TRUE

Diff: 3 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

9) The only way to reduce a current liability is to pay out cash.

Answer: FALSE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

10) Operating lines of credit are popular because they do not carry any interest charges.

Answer: FALSE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Factual

Cognitive Taxon: Remember

11) Interest must be accrued on all current notes payable. For long-term notes the interest is accrued at the maturity of the note.

Answer: FALSE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

12) Notes payable normally require the borrower to pay interest.

Answer: TRUE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Factual

Cognitive Taxon: Remember

13) A $15,000, 8%, 9-month note payable requires an interest payment of $900 at maturity, if no interest was previously paid.

Answer: TRUE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

14) The rate of provincial sales taxes is the same in every province.

Answer: FALSE

Diff: 1 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Factual

Cognitive Taxon: Remember

15) The Federal Government collects all the PST and GST for the country and then passes on the collection of the PST to the individual provincial governments.

Answer: FALSE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Factual

Cognitive Taxon: Remember

16) Most lines of credit are payable on demand.

Answer: TRUE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Factual

Cognitive Taxon: Remember

17) The province of Alberta has the lowest PST rate in Canada of 3%.

Answer: FALSE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Factual

Cognitive Taxon: Remember

18) The methods of recording GST and HST are similar.

Answer: TRUE

Diff: 1 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Factual

Cognitive Taxon: Remember

19) In some provinces individual consumers must pay both HST and PST.

Answer: FALSE

Diff: 1 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Factual

Cognitive Taxon: Remember

20) In provinces with PST, businesses must pay the tax when they are the final consumer of the goods.

Answer: TRUE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Factual

Cognitive Taxon: Remember

21) Secured operating lines of credit normally have lower rates of interest than unsecured operating lines of credit.

Answer: TRUE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Factual

Cognitive Taxon: Remember

22) Long-term debt refers to obligations that have to be paid within a year of the balance sheet date.

Answer: FALSE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Factual

Cognitive Taxon: Remember

23) Goods and services taxes add an extra cost to the value of inventory.

Answer: FALSE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Conceptual

Cognitive Taxon: Remember

24) Which of the following liabilities creates no expense on the part of the company?

A) Employment Insurance payable

B) Canada Pension Plan payable

C) GST payable

D) Estimated warranty payable

Answer: C

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Factual

Cognitive Taxon: Understand

25) When a company issues a short-term note payable:

A) the note payable account is credited.

B) the note payable is debited.

C) the interest expense is credited.

D) the interest expense account is debited.

Answer: A

Diff: 1 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Factual

Cognitive Taxon: Understand

26) Unearned revenue represents revenue that has:

A) been earned and collected.

B) been earned but not yet collected.

C) been collected but not yet earned.

D) not been collected nor earned.

Answer: C

Diff: 1 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Factual

Cognitive Taxon: Remember

27) Sales revenue for Joe's Sporting Goods for the current period amounted to $215,000. Joe's Sporting Goods records GST when merchandise is sold. All sales are on account. The GST rate is 5%. The journal entry would include a debit to:

A) Accounts Receivable for $215,000.

B) Accounts Receivable for $225,750.

C) GST Payable for $10,750.

D) Sales Revenue for $215,000.

Answer: B

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

28) Amounts owed to suppliers for products or services purchased on open accounts are called:

A) notes payable.

B) unearned revenues.

C) accounts payable.

D) accrued expenses.

Answer: C

Diff: 1 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Factual

Cognitive Taxon: Remember

**Table 11-1**

A $10,000, 90-day, 12% note payable was issued on November 1, 2023.

29) Referring to Table 11-1, what is the amount of the accrued interest on December 31, 2023?

A) $194.52

B) $95.34

C) $101.92

D) $197.26

Answer: D

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

30) Referring to Table 11-1, what is the amount of interest expense recorded in 2024?

A) $98.63

B) $193.97

C) $101.92

D) $120.00

Answer: A

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

31) Referring to Table 11-1, the entry on the maturity date would include a:

A) credit to Interest Payable for $98.63.

B) debit to Interest Expense for $98.63.

C) credit to Note Payable for $10,295.89.

D) credit to Cash for $10,000.

Answer: B

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Factual

Cognitive Taxon: Understand

32) Stardust Company issued a five-year, interest-bearing note payable for $50,000 on January 1, 2023. Each January, Stardust is required to pay $10,000 principal on the note. What is the amount that will be reported on the current portion of long-term notes payable on the December 31, 2024 balance sheet?

A) $10,000

B) $0

C) $30,000

D) $20,000

Answer: A

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

33) Camrey Company issued a five-year, interest-bearing note payable for $50,000 on January 1, 2023. Each January, Camrey is required to pay $10,000 principal on the note. What is the amount that will be reported on the long-term portion of long-term notes payable on the December 31, 2025 balance sheet?

A) $10,000

B) $40,000

C) $30,000

D) $20,000

Answer: D

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

**Table 11-2**

A $6,000, 120-day, 8% note payable is signed at the bank on October 2, 2023 to borrow cash for the purchase of a car.

34) Referring to Table 11-2, what is the amount of cash that is payable at the maturity of the note?

A) $6,157.81

B) $5,921.16

C) $5,842.19

D) $6,000.00

Answer: A

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

35) Referring to Table 11-2, the adjusting entry on December 31, 2023, would include a:

A) debit to Interest Expense for $147.81.

B) credit to Interest Expense for $118.36.

C) debit to Note Payable for $118.36.

D) credit to Interest Payable for $118.36.

Answer: D

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Factual

Cognitive Taxon: Remember

36) The entry to accrue sales tax expense includes a:

A) debit to Sales Tax Expense.

B) credit to Sales Tax Payable.

C) debit to Sales Tax Payable.

D) There is no accrual of sales tax expense.

Answer: D

Diff: 1 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Factual

Cognitive Taxon: Remember

37) Lippman Company Ltd. collects 5% GST on sales. If sales are $963,000, the proper accounting includes:

A) $101,115 credit to Sales.

B) $48,150 credit to GST Payable.

C) $48,150 debit to GST Recoverable.

D) $963,000 debit to Accounts Receivable.

Answer: B

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

38) The journal entry to remit GST to the Receiver General includes:

A) credit to GST Payable.

B) debit to GST Recoverable.

C) credit to GST Recoverable and debit to GST Payable.

D) debit to GST Recoverable and credit to GST Payable.

Answer: C

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

39) A company borrows $5,000 on November 1, 2023, giving a 10%, 180-day note payable. The adjusting entry on December 31, 2023, would include a:

A) credit to Interest Payable for $82.19.

B) credit to Interest Payable for $123.29.

C) credit to Interest Expense for $82.19.

D) credit to Cash for $82.19.

Answer: A

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

40) A company borrows $15,000 on November 1, 2023, giving a 6%, 90-day note payable. The adjusting entry on December 31, 2023, would include a:

A) credit to Interest Payable for $73.97.

B) credit to Interest Payable for $147.95.

C) debit to Interest Expense for $221.92.

D) credit to Cash for $147.95.

Answer: B

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

41) A company gives a $100,000, 120-day note at the bank at 9%. How much will the company pay the bank at maturity?

A) $102,958.90

B) $97,041.10

C) $98,520.55

D) $101,479.45

Answer: A

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

42) A company gives a $40,000, six-month note at the bank at 8%. How much will the company pay the bank at maturity?

A) $40,000

B) $43,200

C) $41,600

D) $38,400

Answer: C

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

43) A company gives a $50,000, 60-day note at the bank at 7%. How much will the company pay the bank at maturity?

A) $50,287.67

B) $49,424.66

C) $49,712.33

D) $50,575.34

Answer: D

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

44) Failure to record accrued interest on a note payable causes a company to:

A) overstate interest income.

B) understate interest expense.

C) understate retained earnings.

D) overstate interest expense and understate retained earnings.

Answer: B

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

45) Short-term notes payable:

A) are an unusual form of financing.

B) are generally due within one year.

C) are classified on the balance sheet as non-current.

D) are shown on the balance sheet as a reduction to notes receivable.

Answer: B

Diff: 1 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Factual

Cognitive Taxon: Remember

46) The entry to accrue interest on a note payable would include a:

A) debit to Note Payable.

B) credit to Interest Receivable.

C) credit to Interest Revenue.

D) debit to Interest Expense.

Answer: D

Diff: 1 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

**Table 11-3**

Bentley Enterprises purchased $8,000 of inventory by issuing a six-month, 7.5% note payable on November 1, 2023. Bentley has a December 31 year end.

47) Referring to Table 11-3, the amount of accrued interest on December 31, 2023, would be:

A) $200.00.

B) $100.00.

C) $50.00.

D) $300.00.

Answer: B

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

48) Refer to Table 11-3. The entry on May 1, 2024, to pay the note payable and interest would include a:

A) debit to Interest Expense of $300.00.

B) debit to Interest Payable of $100.00.

C) credit to Interest Payable of $200.00.

D) credit to Cash of $8,000.00.

Answer: B

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

49) Refer to Table 11-3. The amount of interest expense recognized in 2023 would be:

A) $200.00.

B) $50.00.

C) $100.00.

D) $300.00.

Answer: C

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Procedural

Cognitive Taxon: Understand

50) The portion of a long-term debt payable within the year is classified as a current liability. The interest payable on the debt is:

A) added to the face value of the debt.

B) classified separately from the principal amount of the debt.

C) not recorded until maturity of the debt.

D) accrued on the anniversary date of the debt.

Answer: B

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Factual

Cognitive Taxon: Remember

**Table 11-4**

Lumas Company gives a $50,000, 180-day note payable to its bank at 9% on September 15, 2023 for a cash loan. Lumas has a December 31 year end.

51) Refer to Table 11-4. The entry to record the loan with the note on September 15, 2023, would include a:

A) debit to Cash of $50,000.

B) debit to Interest Expense of $2,219.18.

C) credit to Note Payable, Short Term of $52,219.18.

D) debit to Note Payable for $50,000.

Answer: A

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

52) Refer to Table 11-4. The adjusting entry necessary at December 31, 2023, would be:

A)

|  |  |  |
| --- | --- | --- |
| Interest Expense | 1,319.18 |  |
|  Interest Payable |  | 1,319.18 |

B)

|  |  |  |
| --- | --- | --- |
| Note Payable | 1,319.18 |  |
|  Interest Payable |  | 1,319.18 |

C)

|  |  |  |
| --- | --- | --- |
| Interest Expense | 1,319.18 |  |
|  Note Payable |  | 1,319.18 |

D) no adjusting entry is necessary

Answer: A

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

53) Refer to Table 11-4. The entry on the maturity date to record the payment of the note payable plus accrued interest would include a:

A) credit to Note Payable of $50,000.00.

B) debit to Interest Payable of $900.00.

C) credit to Cash of $52,219.18.

D) debit to Interest Expense of $1,319.18.

Answer: C

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

**Table 11-5**

On March 1, 2023, William Browning received $15,000 in advance for services to be provided over the next 12 months.

54) Refer to Table 11-5. The entry on March 1, 2023, would include a:

A) credit to Sales Revenue for $15,000.

B) credit to Unearned Revenue for $15,000.

C) debit to Sales Revenue for $15,000.

D) debit to Unearned Revenue for $15,000.

Answer: B

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

55) Refer to Table 11-5. The adjusting entry on December 31, 2023, would include a:

A) debit to Sales Revenue for $12,500.

B) debit to Unearned Revenue for $12,500.

C) credit to Sales Revenue for $2,500.

D) debit to Unearned Revenue for $2,500.

Answer: B

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

56) All of the following are unearned revenues *except*:

A) deferred revenues.

B) accrued revenues.

C) revenues collected in advance.

D) customer prepayments.

Answer: B

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

57) Liabilities that exist but whose exact amount is NOT known must be:

A) ignored.

B) estimated.

C) reported in the notes to the financial statements.

D) treated as a contingent liability.

Answer: B

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Factual

Cognitive Taxon: Remember

58) GST Tax Expense would appear:

A) on the balance sheet as a current liability.

B) on the income statement as an expense.

C) on the balance sheet as a long-term liability.

D) There is no such account.

Answer: D

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Factual

Cognitive Taxon: Remember

**Table 11-10**

Benny's Bagels operates in a province that has HST collected by the federal government at a rate of 12%. During the month of December 2023 Benny's Bagels purchased baking materials for $12,000; bought a new oven for $15,000; paid salaries of $14,000; and, had cash sales of $35,000.

59) Refer to Table 11-10. What is the correct journal entry to record the payments made during December that require HST?

A)

|  |  |  |
| --- | --- | --- |
| Inventory | 12,000 |  |
| Equipment | 15,000 |  |
| Salaries expense | 14,000 |  |
| HST recoverable | 4,920 |  |
|  Cash |  | 45,920 |

B)

|  |  |  |
| --- | --- | --- |
| Inventory | 12,000 |  |
| Equipment | 15,000 |  |
| HST recoverable | 3,240 |  |
|  Cash |  | 30,240 |

C)

|  |  |  |
| --- | --- | --- |
| Inventory | 12,000 |  |
| Equipment | 15,000 |  |
| HST payable | 3,240 |  |
|  Cash |  | 30,240 |

D)

|  |  |  |
| --- | --- | --- |
| Inventory | 12,000 |  |
| Equipment | 15,000 |  |
| Salaries expense | 14,000 |  |
|  Cash |  | 41,000 |

Answer: B

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

60) Refer to Table 11-10. What is the correct journal entry to record the sales made during December?

A)

|  |  |  |
| --- | --- | --- |
| Cash | 35,000 |  |
|  HST payable |  | 4,200 |
|  Sales |  | 30,800 |

B)

|  |  |  |
| --- | --- | --- |
| Cash | 35,000 |  |
|  Sales revenue |  | 35,000 |

C)

|  |  |  |
| --- | --- | --- |
| Cash | 35,000 |  |
| HST recoverable | 4,200 |  |
|  Sales revenue |  | 39,200 |

D)

|  |  |  |
| --- | --- | --- |
| Cash | 39,200 |  |
|  HST payable |  | 4,200 |
|  Sales revenue |  | 35,000 |

Answer: D

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

61) Refer to Table 11-10. What is the correct journal entry to record the payment of the HST amount owing at the end of December?

A)

|  |  |  |
| --- | --- | --- |
| HST payable | 4,200 |  |
|  HST recoverable |  | 3,240 |
|  Cash |  | 960 |

B)

|  |  |  |
| --- | --- | --- |
| HST payable | 4,200 |  |
| HST receivable | 720 |  |
|  HST recoverable |  | 4,920 |

C)

|  |  |  |
| --- | --- | --- |
| HST receivable | 960 |  |
|  Cash |  | 960 |

D)

|  |  |  |
| --- | --- | --- |
| HST recoverable | 4,200 |  |
|  HST payable |  | 3,240 |
|  Cash |  | 960 |

Answer: A

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

**Table 11-11**

On April 1, 2023 Maudlin Sales purchased inventory for $80,000 by signing a one-year note payable, due March 31, 2024. The note bears interest at an annual rate of 8%.

62) Refer to Table 11-11. What is the correct journal entry to record the purchase of inventory if Maudlin Sales uses a periodic inventory system?

A)

|  |  |  |
| --- | --- | --- |
| Inventory | 80,000 |  |
|  Notes payable |  | 80,000 |

B)

|  |  |  |
| --- | --- | --- |
| Purchases | 80,000 |  |
|  Notes payable |  | 80,000 |

C)

|  |  |  |
| --- | --- | --- |
| Purchases | 86,400 |  |
|  Accounts payable |  | 86,400 |

D)

|  |  |  |
| --- | --- | --- |
| Inventory | 86,400 |  |
|  Notes payable |  | 86,400 |

Answer: B

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

63) Refer to Table 11-11. What is the correct adjusting journal entry on December 31, 2023?

A)

|  |  |  |
| --- | --- | --- |
| Interest revenue | 4,800 |  |
|  Interest payable |  |  4,800 |

B)

|  |  |  |
| --- | --- | --- |
| Interest expense | 5,184 |  |
|  Interest payable |  | 5,184 |

C)

|  |  |  |
| --- | --- | --- |
| Interest expense | 4,800 |  |
|  Interest payable |  |  4,800 |

D)

|  |  |  |
| --- | --- | --- |
| Interest receivable | 4,800 |  |
|  Interest revenue |  |  4,800 |

Answer: C

Explanation: $80,000 × 9/12 × .08 = $4,800

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

64) Refer to Table 11-11. What is the correct journal entry on March 31, 2024?

A)

|  |  |  |
| --- | --- | --- |
| Notes payable | 80,000 |  |
| Interest payable | 4,800 |  |
| Interest expense | 1,600 |  |
|  Cash |  | 86,400 |

B)

|  |  |  |
| --- | --- | --- |
| Notes payable | 86,400 |  |
| Interest payable | 5,184 |  |
|  Cash |  | 91,584 |

C)

|  |  |  |
| --- | --- | --- |
| Notes payable | 80,000 |  |
| Interest receivable |  4,800 |  |
|  Cash |  | 84,800 |

D)

|  |  |  |
| --- | --- | --- |
| Notes payable | 80,000 |  |
|  Cash |  | 80,000 |

Answer: A

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

**Table 11-12**

On April 1st 2023 Jamboree Sales purchased inventory for $40,000 by signing a one-year note payable, due March 31, 2024. The note bears interest at an annual rate of 8%.

65) Refer to Table 11-12. What is the correct journal entry to record the purchase of inventory if Jamboree Sales uses a perpetual inventory system?

A)

|  |  |  |
| --- | --- | --- |
| Inventory | 40,000 |  |
| Notes payable |  | 40,000 |

B)

|  |  |  |
| --- | --- | --- |
| Purchases | 40,000 |  |
| Notes payable |  | 40,000 |

C)

|  |  |  |
| --- | --- | --- |
| Purchases | 43,200 |  |
| Accounts payable |  | 43,200 |

D)

|  |  |  |
| --- | --- | --- |
| Inventory | 43,200 |  |
| Notes payable |  | 43,200 |

Answer: A

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

66) Refer to Table 11-12. What is the correct adjusting journal entry on December 31, 2023?

A)

|  |  |  |
| --- | --- | --- |
| Interest revenue |  2,400 |  |
| Interest payable |  |  2,400 |

B)

|  |  |  |
| --- | --- | --- |
| Interest expense |  2,592 |  |
| Interest payable |  | 2,592 |

C)

|  |  |  |
| --- | --- | --- |
| Interest expense |  2,400 |  |
| Interest payable |  |  2,400 |

D)

|  |  |  |
| --- | --- | --- |
| Interest receivable |  2,400 |  |
| Interest revenue |  |  2,400 |

Answer: C

Explanation: $40,000 × 9/12 × .08 = $2,400

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

67) Refer to Table 11-12. What is the correct journal entry on March 31, 2024?

A)

|  |  |  |
| --- | --- | --- |
| Notes payable | 40,000 |  |
| Interest payable |  2,400 |  |
| Interest expense | 800 |  |
|  Cash |  | 43,200 |

B)

|  |  |  |
| --- | --- | --- |
| Notes payable | 43,200 |  |
| Interest payable | 2,592 |  |
|  Cash |  | 45,792 |

C)

|  |  |  |
| --- | --- | --- |
| Notes payable | 40,000 |  |
| Interest receivable |  2,400 |  |
|  Cash |  | 42,400 |

D)

|  |  |  |
| --- | --- | --- |
| Notes payable | 40,000 |  |
|  Cash |  | 40,000 |

Answer: A

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

68) Benny's Shoes and Feet Stuff operates in a province where HST is applicable at a rate of 12%. Last week he purchased $5,000 of shoe inventory on credit. Which of the following journal entries correctly records this transaction if Benny's Shoes and Feet Stuff uses a periodic inventory system?

A)

|  |  |  |
| --- | --- | --- |
| Purchases | 5,000 |  |
| HST Recoverable | 600 |  |
|  Accounts Payable |  | 5,600 |

B)

|  |  |  |
| --- | --- | --- |
| Purchases | 5,000 |  |
| HST Payable | 600 |  |
|  Accounts Payable |  | 5,600 |

C)

|  |  |  |
| --- | --- | --- |
| Inventory | 5,000 |  |
| HST Recoverable | 600 |  |
|  Accounts Payable |  | 5,600 |

D)

|  |  |  |
| --- | --- | --- |
| Inventory | 5,000 |  |
| HST Payable | 600 |  |
|  Accounts Payable |  | 5,600 |

Answer: A

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

69) Secured operating lines of credit:

A) normally have lower rates of interest than unsecured operating lines of credit.

B) normally have higher rates of interest than unsecured operating lines of credit.

C) normally have the same rates of interest than unsecured operating lines of credit.

D) cannot be compared to rates of interest on unsecured operating lines of credit.

Answer: A

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Factual

Cognitive Taxon: Remember

70) The failure to record an accrued liability:

A) causes a company to overstate its net income.

B) causes a company to understate its net income.

C) has no impact on its net income.

D) causes a company to overstate or understate its net income.

Answer: A

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

**Table 11-8**

BCN Bank agrees to lend Samson Company $80,000 on January 1. Samson Company signs an $80,000, 5%, 9-month note.

71) Refer to Table 11-8. Prepare the entry made by Samson Company on January 1 to record the proceeds and issue of the note.

Answer:

 **Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Accounts** | **Debit** | **Credit** |
| Jan. 1 | Cash | 80,000 |  |
|  |  Notes Payable |  | 80,000 |

Diff: 1 Type: SA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

72) Refer to Table 11-8. Prepare the adjusting journal entry made by Samson Company on its June 30 year end.

Answer:

 **Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Accounts** | **Debit** | **Credit** |
| June 30 | Interest Expense \* | 2,000 |  |
|  |  Interest Payable |  | 2,000 |

\* $80,000 × 0.05 × 6/12 = $2,000

Diff: 2 Type: SA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

73) Refer to Table 11-8. Prepare the entry that Samson Company will make to pay off the note and interest at maturity assuming that interest has been accrued to June 30.

Answer:

 **Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Accounts** | **Debit** | **Credit** |
| Sept. 30 | Interest Expense \* | 1,000 |  |
|  | Interest Payable | 2,000 |  |
|  | Note Payable | 80,000 |  |
|  |  Cash |  | 83,000 |

\* $80,000 × 0.05 × 3/12 = $1,000

Diff: 2 Type: SA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

74) Federated Express purchased equipment costing $75,000 on October 2, 2023, by paying 30% down and signing an 8%, 120-day note payable for the balance. Federated's year end is December 31.

1) Prepare journal entries to:

 a) record the purchase of the equipment on October 2, 2023

 b) record the accrual of interest on December 31, 2023

 c) record payment of the note on January 30, 2024

2) Determine the balance of any current liabilities associated with the note as of December 31, 2023

Answer:

1)

 **General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Accounts** | **Debit** | **Credit** |
| 2023 |  |  |  |
| Oct. 2 | Equipment | 75,000.00 |  |
|  |  Cash |  | 22,500.00 |
|  |  Note Payable |  | 52,500.00 |
| Dec. 31 | Interest Expense | 1,035.62 |  |
|  |  Interest Payable |  | 1,035.62 |
| 2024 |  |  |  |
| Jan. 30 | Interest Payable | 1,035.62 |  |
|  | Interest Expense | 345.20 |  |
|  | Note Payable | 52,500.00 |  |
|  |  Cash |  | 53,880.82 |

2) December 31, 2023 Balance Sheet

 Note payable $52,500.00

 Interest payable 1,035.62

Diff: 3 Type: ES

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

75) Stanton Delivery purchased a truck costing $100,000 on September 3, 2023, by paying $4,000 down and signing a 10%, 180-day note payable for the balance. Stanton's year end is December 31.

1) Prepare journal entries to:

 a) record the purchase of the truck on September 3, 2023

 b) record the accrual of interest on December 31, 2023

 c) record payment of the note on February 2, 2024

2) Determine the balance of any current liabilities associated with the note as of December 31, 2023.

Answer:

1)

 **General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Accounts** | **Debit** | **Credit** |
| 2023 |  |  |  |
| Sept. 3 | Truck | 100,000.00 |  |
|  |  Cash |  | 4,000.00 |
|  |  Note Payable |  | 96,000.00 |
| Dec. 31 | Interest Expense | 3,129.86 |  |
|  |  Interest Payable |  | 3,129.86 |
| 2024 |  |  |  |
| Feb. 2 | Interest Payable | 3,129.86 |  |
|  | Interest Expense | 1,604.38 |  |
|  | Note Payable | 96,000.00 |  |
|  |  Cash |  | 100,734.24 |

2) December 31, 2023 Balance Sheet

 Note payable $96,000.00

 Interest payable 3,129.86

Diff: 3 Type: ES

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

76) The Cart Company, whose year end is December 31, entered into the following transactions relating to notes payable during 2023:

Nov. 15 Purchased inventory costing $45,000 by signing a 60-day,

 6% note payable.

Dec. 1 Purchased additional inventory costing $30,000 by signing a 120-day,

 7% note payable.

Dec. 13 Gave a 180-day, $20,000 note payable at the bank at 7.5% for a cash loan.

Prepare any necessary adjusting entries related to the above notes as of December 31, 2023.

Answer:

 **General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Accounts** | **Debit** | **Credit** |
| Dec. 31 | Interest Expense | 340.27 |  |
|  |  Interest Payable |  | 340.27 |
| 31 | Interest Expense | 172.60 |  |
|  |  Interest Payable |  | 172.60 |
| 31 | Interest Expense | 73.97 |  |
|  |  Interest Payable |  | 73.97 |

Diff: 2 Type: ES

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

77) Very Bouys Inc. had cash sales of $650,000 during the month of December and collected the 8% sales tax on these sales required by the province in which Very Bouys operates. Very Bouys must remit the sales tax to the province.

**Required:**

Prepare all necessary journal entries to account for the collection and payment of the sales tax assuming Very Bouys maintains a separate sales tax account.

Answer:

 **General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Accounts** | **Debit** | **Credit** |
| Dec. 31 | Cash | 702,000 |  |
|  |  Sales Revenue |  | 650,000 |
|  |  Sales Tax Payable |  | 52,000 |
|  |  |  |  |
| 31 | Sales Tax Payable | 52,000 |  |
|  |  Cash |  | 52,000 |

Diff: 2 Type: ES

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

78) Newtowne Furniture Gallery issued two notes payable during 2023. Pertinent data on these notes are shown below:

 **Note Amount Rate Term Date Issued**

 A $10,000 10% 120 days November 1

 B $12,500 9% 60 days December 1

In addition to the above two notes, Newtowne Furniture Gallery gave a $50,000, 8%, 180-day note to the First City Bank on September 2, 2023 for a cash loan.

Prepare adjusting entries on December 31, 2023, for the above three notes.

Answer:

 **General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Accounts** | **Debit** | **Credit** |
| Dec. 31 | Interest Expense | 164.38 |  |
|  |  Interest Payable |  | 164.38 |
| 31 | Interest Expense | 92.47 |  |
|   |  Interest Payable |  | 92.47 |
| 31 | Interest Expense | 1,315.07 |  |
|  |  Interest Payable |  | 1,315.07 |

Diff: 2 Type: ES

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

79) Record journal entries for the following transactions for Sampson Company. Sampson uses a perpetual inventory system.

Nov. 1 Purchased merchandise on account from County Suppliers, $2,000, terms n/30.

 15 Purchased merchandise from Shuping Wholesalers, $5,000, by issuing a 60-day, 12% note.

 30 Paid the amount due to County Suppliers.

Dec. 1 Gave a 90-day, $25,000, 12% note to the FP Bank for a cash loan.

Dec. 31 Recorded any necessary adjusting entries.

Answer:

 **General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Accounts** | **Debit** | **Credit** |
| Nov. 1 | Inventory | 2,000.00 |  |
|  |  Accounts Payable |  | 2,000.00 |
| 15 | Inventory | 5,000.00 |  |
|  |  Note Payable |  | 5,000.00 |
|  30 | Accounts Payable | 2,000.00 |  |
|  |  Cash |  | 2,000.00 |
| Dec. 1 | Cash | 25,000.00 |  |
|  |  Note Payable |  | 25,000.00 |
| 31 | Interest Expense | 75.62 |  |
|  |  Interest Payable |  | 75.62 |
| 31 | Interest Expense | 246.58 |  |
|  |  Interest Payable |  | 246.58 |

Diff: 2 Type: ES

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

80) Faulkner Company engaged in the following transactions regarding unearned rent during 2023.

Feb. 1 Collected $6,000 from a tenant who was paying for a two-year lease. (Lease A)

Mar. 1 Collected $3,600 from a tenant who was paying for a one-year lease. (Lease B)

Apr. 1 Collected $7,200 from a tenant who was paying for a one-year lease. (Lease C)

a) Prepare journal entries for the above transactions.

b) Prepare adjusting entries on December 31, 2023, for the above transactions.

Answer:

 **General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Accounts** | **Debit** | **Credit** |
| Feb. 1 | Cash | 6,000 |  |
|  |  Unearned Rent Revenue (A) |  | 6,000 |
| Mar. 1 | Cash | 3,600 |  |
|  |  Unearned Rent Revenue (B) |  | 3,600 |
| Apr. 1 | Cash | 7,200 |  |
|  |  Unearned Rent Revenue (C) |  | 7,200 |
|  |  |  |  |
|  | Adjusting Entries |  |  |
|  |   |  |  |
| Dec. 31 | Unearned Rent Revenue (A) | 2,750 |  |
|  |  Rent Revenue |  | 2,750 |
|  31 | Unearned Rent Revenue (B) | 3,000 |  |
|  |  Rent Revenue |  | 3,000 |
|  | Unearned Rent Revenue (C) | 5,400 |  |
|  |  Rent Revenue |  | 5,400 |

Diff: 2 Type: ES

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

81) The Big Hill Outdoor Shop Corp. is a retail store that uses the perpetual inventory system. A GST rate of 5 percent is applicable to all sales and purchases.

Record the following transactions for The Big Hill Outdoor Shop. Explanations are not required.

 Jan. 4 Purchased equipment for $20,000 plus GST, signing a three-month, 10 percent note payable.

 10 Purchased merchandise for resale costing $14,000 plus GST on account.

 31 Recorded the month's cash sales of $180,000 plus GST.

 31 Paid the monthly income tax instalment of $4,200.

 Feb. 7 Sent January's GST to the Receiver General.

Answer:

 **Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Accounts** | **Debit** | **Credit** |
| Jan. 4 | Equipment | 20,000 |  |
|  | GST Recoverable | 1,000 |  |
|  |  Notes Payable |  | 21,000 |
|  |  |  |  |
| 10 | Inventory | 14,000 |  |
|  | GST Recoverable | 700 |  |
|  |  Accounts Payable |  | 14,700 |
|  |  |  |  |
| 31 | Cash | 189,000 |  |
|  |  GST Payable |  | 9,000 |
|  |  Sales |  | 180,000 |
|  |  |  |  |
| 31 | Income Tax Expense | 4,200 |  |
|  |  Cash |  | 4,200 |
|  |  |  |  |
| Feb. 7 | GST Payable | 9,000 |  |
|  |  GST Recoverable |  | 1,700 |
|  |  Cash |  | 7,300 |

Diff: 2 Type: ES

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

82) Jenny's Jewellery operates in a province that has HST collected by the federal government at a rate of 12%. During the month of December 2023, Jenny's Jewellery purchased materials used in the production of jewellery for $24,000; bought new equipment for $6,000; paid salaries of $15,000; and, had cash sales of $55,000.

Prepare the following general journal entries dated on December 31st:

1. Record the payments made during December that require HST using a compound journal entry

2. Record the sales made during December

3. Record the payment of the HST amount owing at the end of December

Answer:

 **Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Accounts** | **Debit** | **Credit** |
|  Dec 31 | Materials Inventory | 24,000  |  |
|  | Equipment | 6,000  |  |
|  | HST Recoverable | 3,600  |  |
|  |  Cash  |  | 33,600  |
|  |   |   |  |
| Dec 31 | Cash  | 61,600  |  |
|  |  Sales |   | 55,000 |
|  |  HST Payable  |  | 6,600  |
|  |   |   |  |
| Dec 31 | HST Payable  | 6,600  |  |
|  |  HST Recoverable |   | 3,600 |
|  |  Cash |  | 3,000 |

Diff: 2 Type: ES

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

83) On April 1, 2023 Prickley Sales purchased inventory for $20,000 by signing a one-year note payable, due March 31, 2024. The note bears interest at an annual rate of 6%. Prickley Sales uses the perpetual method for recording inventory.

Prepare the required journal entries from April 1, 2023 through March 31, 2024.

Answer:

 **Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Accounts** | **Debit** | **Credit** |
|  Apr.1 | Inventory | 20,000  |  |
|  |  Notes Payable  |   | 20,000 |
|  |   |   |  |
| Dec.31 | Interest Expense  | 900 |   |
|  |  Interest Payable |   | 900 |
|   |   |   |  |
| Mar.31 | Notes Payable  | 20,000 |   |
|  | Interest Payable  | 900 |   |
|  | Interest Expense | 300 |  |
|   |  Cash |   | 21,200 |
|  |   |   |   |
|  |   |  |   |

Diff: 2 Type: ES

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

84) On April 1, 2023 Grimley Sales purchased inventory for $40,000 by signing a one-year note payable, due March 31, 2024. The note bears interest at an annual rate of 8%. Grimley Sales uses the perpetual method for recording inventory.

Prepare the required journal entries from April 1, 2023 through March 31, 2024.

Answer:

 **Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Accounts** | **Debit** | **Credit** |
|  Apr.1 | Inventory | 40,000  |  |
|  |  Notes Payable  |   | 40,000 |
|  |   |   |  |
| Dec.31 | Interest Expense  | 2,400 |   |
|  |  Interest Payable |   | 2,400 |
|   |   |   |  |
| Mar.31 | Notes Payable  | 40,000 |   |
|  | Interest Payable  | 2,400 |   |
|  | Interest Expense | 800 |  |
|   |  Cash |   | 43,200 |
|  |  |   |   |
|  |  |  |   |

Diff: 2 Type: ES

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

**Table 11-19**

Marvelous Merchandising charges GST on all its sales at the rate of 5% and pays GST on all its purchases at the rate of 5%. For purposes of this question, any applicable PST is ignored. The following are transactions for the month of May.

May 8 Purchased inventory, on account, FOB destination, from Stranhern Wholesale

 $1,000 plus applicable GST.

 10 Returned defective merchandise to Stranhern, $300 plus applicable GST.

 12 Sold merchandise to Dainty Store on account for $3,000 plus applicable GST.

 FOB shipping point. Cost of the merchandise sold was $2,500.

 28 Collected balance on account from Dainty Store.

 30 Paid balance on account to Stranhern.

85) Refer to Table 11-19. Prepare the journal entries for Marvelous Merchandising for the month of May, assuming that Marvelous Merchandising uses a perpetual inventory system.

Answer:

 **General Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** |  | **Accounts** | **Debit** | **Credit** |
| May 8 |  | Inventory | 1,000 |  |
|  |  | GST Recoverable | 50 |  |
|  |  |  Accounts Payable |  | 1,050 |
| 10 |  | Accounts Payable | 315 |  |
|  |  |  GST Recoverable |  | 15 |
|  |  |  Inventory |  | 300 |
| 12 |  | Accounts Receivable | 3,150 |  |
|  |  |  GST Payable |  | 150 |
|  |  |  Sales Revenue |  | 3,000 |
|  |  | Cost of Goods Sold | 2,500 |  |
|  |  |  Inventory |  | 2,500 |
| 28 |  | Cash | 3,150 |  |
|  |  |  Accounts Receivable |  | 3,150 |
| 30 |  | Accounts Payable | 735 |  |
|  |  |  Cash |  | 735 |

Diff: 2 Type: ES

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

86) Refer to Table 11-19. Prepare the journal entries for Marvelous Merchandising for the month of May, assuming that Marvelous Merchandising uses a periodic inventory system.

Answer:

 **General Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** |  | **Accounts** | **Debit** | **Credit** |
| May 8 |  | Purchases | 1,000 |  |
|  |  | GST Recoverable | 50 |  |
|  |  |  Accounts Payable |  | 1,050 |
| 10 |  | Accounts Payable | 315 |  |
|  |  |  GST Recoverable |  | 15 |
|  |  |  Purchase Returns and Allowances |  | 300 |
| 12 |  | Accounts Receivable | 3,150 |  |
|  |  |  GST Payable |  | 150 |
|  |  |  Sales Revenue |  | 3,000 |
|  |  |  |  |  |
|  |  |  |  |  |
| 28 |  | Cash | 3,150 |  |
|  |  |  Accounts Receivable |  | 3,150 |
| 30 |  | Accounts Payable | 735 |  |
|  |  |  Cash |  | 735 |

Diff: 2 Type: ES

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

**Table 11-20**

Marvelous Merchandising charges GST on all its sales at the rate of 5% and pays GST on all its purchases at the rate of 5%. For purposes of this question, any applicable PST is ignored. The following are transactions for the month of May. Marvelous uses a perpetual inventory system.

May 8 Purchased inventory, on account, FOB destination, from Stranhern Wholesale,

 $1,000 plus applicable GST.

10 Returned defective merchandise to Stranhern, $300 plus applicable GST.

12 Sold merchandise to Dainty Store on account for $3,000 plus applicable GST.

 FOB shipping point. Cost of the merchandise sold was $2,500.

28 Collected balance on account from Dainty Store.

30 Paid balance on account to Stranhern.

 **General Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** |  | **Accounts** | **Debit** | **Credit** |
| May 8 |  | Inventory | 1,000 |  |
|  |  | GST Recoverable | 50 |  |
|  |  |  Accounts Payable |  | 1,050 |
| 10 |  | Accounts Payable | 315 |  |
|  |  |  GST Recoverable |  | 15 |
|  |  |  Inventory |  | 300 |
| 12 |  | Accounts Receivable | 3,150 |  |
|  |  |  GST Payable |  | 150 |
|  |  |  Sales Revenue |  | 3,000 |
|  |  | Cost of Goods Sold | 2,500 |  |
|  |  |  Inventory |  | 2,500 |
| 28 |  | Cash | 3,150 |  |
|  |  |  Accounts Receivable |  | 3,150 |
| 30 |  | Accounts Payable | 735 |  |
|  |  |  Cash |  | 735 |

87) Refer to Table 11-20. Prepare the remittance payment of GST on June 15, based on the assumption that the only transactions for May are those listed in Table 11-20.

Answer:

 **General Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** |  | **Accounts** | **Debit** | **Credit** |
| June 15 |  | GST Payable | 150 |  |
|  |  |  GST Recoverable |  | 35 |
|  |  |  Cash |  | 115 |

Diff: 2 Type: ES

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

11.2 Account for current liabilities that must be estimated

1) The matching objective requires that companies record warranty expense at the time the repair is made.

Answer: FALSE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Factual

Cognitive Taxon: Understand

2) Sales for the current year amount to $900,000. The company estimates warranty expense to be 5% of sales. The journal entry to accrue the estimated warranty expense includes a debit to estimated warranty payable for $45,000.

Answer: FALSE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

3) A corporation's journal entry to accrue income tax owed at year end includes a debit to income tax payable.

Answer: FALSE

Diff: 1 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

4) A contingent liability is a potential liability that depends on a future event arising out of a past transaction.

Answer: TRUE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Factual

Cognitive Taxon: Remember

5) Businesses do not accrue contingent gains but do report actual gains.

Answer: TRUE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

6) Corporations and individuals both pay income tax.

Answer: TRUE

Diff: 1 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Factual

Cognitive Taxon: Remember

7) The law requires all employers to provide paid vacations to their employees.

Answer: TRUE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Factual

Cognitive Taxon: Remember

8) Because contingent liabilities are not real liabilities, they are easy to overlook.

Answer: TRUE

Diff: 1 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

9) The law requires most employers to provide a minimum number of weeks holiday per year.

Answer: TRUE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Factual

Cognitive Taxon: Remember

10) A contingent liability is an actual liability that is estimated when things go wrong.

Answer: FALSE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Factual

Cognitive Taxon: Remember

11) Warranty expense is debited in the period that:

A) the product is repaired.

B) the product is sold.

C) the cash is collected from the customer.

D) either the product is sold or the cash is collected.

Answer: B

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Factual

Cognitive Taxon: Remember

12) What entry is required when a business estimates warranty payable each period based on sales revenue?

A)

|  |
| --- |
| Estimated Warranty Payable |
|  Warranty Expense |

B)

|  |
| --- |
| Warranty Expense |
|  Sales |

C)

|  |
| --- |
| Warranty Expense |
|  Estimated Warranty Payable |

D)

|  |
| --- |
| Inventory |
|  Estimated Warranty Payable |

Answer: C

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Conceptual

Cognitive Taxon: Remember

13) Estimating a warranty expense in the same period as the sales revenue is recognized is an example of:

A) the recognition criteria for revenues.

B) the matching objective.

C) the full-disclosure principle.

D) conservatism.

Answer: B

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

14) Bachman Merchandising has ten employees who each earn $180 per day. If they accumulate vacation time at the rate of 1.5 vacation days for each month worked, the amount of vacation benefits that should be accrued for the group at the end of the month is:

A) $1,800.

B) $180.

C) $270.

D) $2,700.

Answer: D

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

15) All of the following are estimated liabilities *except*:

A) corporate income tax payable.

B) vacation pay payable.

C) employee income tax payable.

D) warranty payable.

Answer: C

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Conceptual

Cognitive Taxon: Remember

16) Warranty expense is debited:

A) in the period the product under warranty is repaired or replaced.

B) in the period the revenue from selling the product was earned.

C) the timing will depend on the length of the warranty period.

D) in the period when the payment for the sale is received.

Answer: B

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Conceptual

Cognitive Taxon: Remember

17) Sales revenue for Booker Company for 2023 amounted to $800,000. The products sold carry a six-month warranty. Management estimates the cost of the warranty to be 3% of sales revenue. Booker should:

A) debit Warranty Expense in 2023 for $24,000.

B) debit Estimated Warranty Payable in 2023 for $24,000.

C) debit Warranty Expense when the products are repaired or replaced in either 2023 or 2024.

D) credit Estimated Warranty Payable in either 2023 or 2024 when the products are repaired or replaced.

Answer: A

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

18) Accruing warranty expense is prescribed by the:

A) recognition criteria for revenues.

B) matching objective.

C) full-disclosure principle.

D) going-concern assumption.

Answer: B

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Conceptual

Cognitive Taxon: Remember

19) Vacation pay expense should be debited:

A) when the employee takes vacation.

B) when the employee has performed a service to the company and earned the vacation.

C) is never debited.

D) when the employee returns from vacation.

Answer: B

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Conceptual

Cognitive Taxon: Remember

20) BCB Corporation has made 11 monthly payments totaling $160,000 for its estimated annual income tax. At year end, income tax expense for BCB Corporation amounts to $185,000. The adjusting entry will involve a:

A) debit to Income Tax Payable for $25,000.

B) debit to Income Tax Expense for $185,000.

C) debit to Income Tax Expense for $25,000.

D) credit to Income Tax Payable for $185,000.

Answer: C

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

21) Franconia Sales offers warranties on all their electronic goods. Warranty expense is estimated at 2% of sales revenue. In 2019, Franconia had $500,000 of sales. In the same year, Franconia paid out $7,500 of warranty payments. Which of the following is the entry needed to record the estimated warranty expense?

A)

|  |  |  |
| --- | --- | --- |
| Estimated warranty payable | 7,500 |  |
|  Cash |  | 7,500 |

B)

|  |  |  |
| --- | --- | --- |
| Warranty expense | 7,500 |  |
|  Estimated warranty payable |  | 7,500 |

C)

|  |  |  |
| --- | --- | --- |
| Warranty expense | 10,000 |  |
|  Estimated warranty payable |  | 10,000 |

D)

|  |  |  |
| --- | --- | --- |
| Warranty expense | 10,000 |  |
|  Sales revenue |  | 10,000 |

Answer: C

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

22) A contingent liability that is likely and can be reasonably estimated should be:

A) disclosed in a note to the financial statements.

B) accrued with a journal entry.

C) either disclosed in a note or accrued with a journal entry.

D) ignored until the liability materializes.

Answer: B

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Factual

Cognitive Taxon: Remember

23) Franconia Sales offers warranties on all their electronic goods. Warranty expense is estimated at 2% of sales revenue. In 2023, Franconia had $500,000 of sales. In the same year, Franconia paid out $7,500 of warranty payments. Which of the following is the entry needed to record the disbursement of warranty payments?

A)

|  |  |  |
| --- | --- | --- |
| Estimated warranty payable | 7,500 |  |
|  Cash |  | 7,500 |

B)

|  |  |  |
| --- | --- | --- |
| Warranty expense | 7,500 |  |
|  Estimated warranty payable |  | 7,500 |

C)

|  |  |  |
| --- | --- | --- |
| Warranty expense | 10,000 |  |
|  Estimated warranty payable |  | 10,000 |

D)

|  |  |  |
| --- | --- | --- |
| Warranty expense | 10,000 |  |
|  Sales revenue |  | 10,000 |

Answer: A

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

24) A contingent liability that has a remote chance of occurrence and an uncertain amount should be:

A) disclosed in a note to the financial statements.

B) accrued with a journal entry.

C) either disclosed in a note or accrued with a journal entry.

D) ignored until the liability materializes.

Answer: D

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Factual

Cognitive Taxon: Remember

25) A contingent gain that is likely and can be reasonably estimated should be:

A) disclosed in a note to the financial statements.

B) accrued with a journal entry.

C) either disclosed in a note or accrued with a journal entry.

D) ignored until the actual gain materializes.

Answer: D

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Factual

Cognitive Taxon: Remember

**Table 11-13**

Arc Digital starts the year with balances in its Estimated warranty payable account and Warranty expense account as shown below. During the year, there were $190,000 of sales and $3,200 of warranty repair payments. Arc Digital estimates warranty expense at 1.5% of sales.

 Estimated

 warranty payable

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | 1,400 |  |

 Warranty expense

|  |  |  |  |
| --- | --- | --- | --- |
|  | 0 |  |  |

26) Refer to Table 11-13. At the end of the year, what was the balance in the warranty expense account?

A) $2,850 debit

B) $1,250 credit

C) $3,200 debit

D) $1,420 debit

Answer: A

Explanation: Calculations: $190,000 × 1.5% = $2,850

Diff: 1 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

27) Refer to Table 11-13. At the end of the year, what was the balance in the estimated warranty payable account?

A) $2,850 debit

B) $1,050 credit

C) $3,200 debit

D) $1,420 debit

Answer: B

Explanation: Calculations: $1,400 + $2,850 - $3,200 = $1,050

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

**Table 11-14**

Tractor World offers warranties on all their tractors. They estimate warranty expense at 2.4% of sales. At the beginning of 2023, the estimated warranty payable account had a credit balance of $900. During the year, Tractor World had $285,000 of sales, and had to pay out $5,100 in warranty payments.

28) Refer to Table 11-14. At the end of the year, how much warranty expense was reported on the income statement?

A) $2,640

B) $5,100

C) $4,200

D) $6,840

Answer: D

Explanation: Calculations: $285,000 × .024 = $6,840

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

29) Refer to Table 11-14. At the end of the year, what balance in estimated warranty payable would be included in the balance sheet?

A) $2,640

B) $5,100

C) $4,200

D) $6,840

Answer: A

Explanation: Calculations: $900 + $6,840 - $5,100 = $2,640

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

30) The matching objective requires that companies record warranty expense:

A) at the time the sale is made.

B) at the time the repair is made.

C) at the time the warranty ends.

D) at the time to reduce tax expense.

Answer: A

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

31) The law requires most employers to provide:

A) a minimum number of weeks holiday per year.

B) a maximum number of weeks holiday per year.

C) a minimum number of weeks sick pay per year.

D) a maximum number of weeks sick pay per year.

Answer: A

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Factual

Cognitive Taxon: Remember

32) Bill's Bargain Vacuums warrants all of its products for one full year against any defect in manufacturing. Sales for 2023 and 2024 were $758,000 and $871,000, respectively. Bill's Bargain Vacuums expects warranty claims to run 4.5% of annual sales. Bill's paid $30,150 and $38,290, respectively, in 2023 and 2024 in warranty claims.

1) Compute Bill's warranty expense for 2023 and 2024.

2) Compute the balance in estimated warranty payable on December 31, 2024, assuming the January 1, 2023, balance in the account was $2,980.

Answer:

1) 2023 ($758,000 × 0.045) = $34,110

 2024 ($871,000 × 0.045) = $39,195

2) $2,980 + $34,110 - $30,150 + $39,195 - $38,290 = $7,845

Diff: 2 Type: SA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

33) For each of the following contingent situations, state the proper accounting treatment.

a) Glendale Company is involved in several lawsuits at the end of the current year involving a defective product. Glendale's legal counsel feels it is probable that Glendale will incur losses of $500,000.

b) Riverside Company is involved with Canada Revenue Agency in a tax dispute. Riverside's legal counsel feels it is possible, but not likely that Riverside will incur losses of $200,000.

c) Daniels Company is involved in a lawsuit, which its legal counsel feels has no merit. Legal counsel advises Daniels the chances of incurring a loss are extremely remote.

d) Sparks Brothers is involved in a lawsuit against a supplier and is anticipating a cash settlement in its favour of $500,000. Legal counsel advises Sparks Brothers that the chances of winning the suit and being awarded the $500,000 are excellent.

Answer:

a) accrue

b) disclose in notes

c) ignore

d) ignore

Diff: 3 Type: SA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

**Table 11-9**

During 2023, Cougar Manufacturing launched a new product carrying a two-year warranty against defects. The estimated warranty costs related to dollar sales are 3% within 12 months following sale and 5% in the second 12 months following sale. Sales and actual warranty claims for the years ended December 31, 2023 and 2024 were as follows:

 Actual

 Warranty

 Sales Claims

2023 $400,000 $19,000

2024 500,000 32,000

 $900,000 $51,000

34) Refer to Table 11-9. Prepare the journal entry at December 31, 2019 for the accrual of warranty expenses.

Answer:

 **Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date****2023** | **Accounts** | **Debit** | **Credit** |
| Dec. 31 | Warranty Expense \* | 32,000 |  |
|  |  Estimated Warranty Payable |  | 32,000 |

\* $400,000 × (0.03 + 0.05) = $32,000

Diff: 2 Type: SA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

35) Refer to Table 11-9. Prepare the journal entry at December 31, 2024 for the accrual of warranty expenses.

Answer:

 **Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date****2020** | **Accounts** | **Debit** | **Credit** |
| Dec. 31 | Warranty Expense \* | 40,000 |  |
|  |  Estimated Warranty Payable |  | 40,000 |

\* $500,000 × (0.03 + 0.05) = $40,000

Diff: 2 Type: SA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

36) Refer to Table 11-9. Calculate the balance of the Estimated Warranty Payable account at December 31, 2023 for Cougar Manufacturing.

Answer:

Opening Balance January 1, 2023 nil

2023 Accrual $400,000 × (0.03 + 0.05) 32,000

Less warranty claims in 2023 19,000

Balance December 31, 2023 13,000

Diff: 2 Type: SA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

37) Refer to Table 11-9. Calculate the balance of the Estimated Warranty Payable account at December 31, 2024 for Cougar Manufacturing.

Answer:

Opening Balance January 1, 2023 nil

Add 2023 Accrual $400,000 (0.03 + 0.05) 32,000

Less warranty claims in 2023 19,000

Add: 2020 Accrual $500,000 × (0.03 + 0.05) 40,000

Less warranty claims in 2024 32,000

Balance December 31, 2024 21,000

Diff: 2 Type: SA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

38) Western Yard Equipment offers warranties on all their lawn mowers. They estimate warranty expense at 1.4% of sales. At the beginning of 2023, the estimated warranty payable account had a credit balance of $1,200. During the year, Western Yard Equipment had $485,000 of sales, and had to pay out $8,730 in warranty payments.

**Required:**

1. Prepare the required journal entries to record warranty expense and payments. Use December 31 for the journal entry date.

2. What is the balance of the warranty liability at the end of 2023? Indicate whether the balance is a debit or a credit.

Answer:

 **Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Accounts** | **Debit** | **Credit** |
| Dec 31 | Warranty Expense | 6,790 |  |
|  |  Estimated Warranty Payable  |   | 6,790 |
|  |   |   |  |
| Dec.31 | Estimated Warranty Payable  | 8,730 |   |
|  |  Cash |   | 8,730 |
|   |   |   |  |
|   |   |   |   |

Estimated warranty payable balance December 31, 2023:

$1,200 + $6,790 - $8,730 = $740 debit

Diff: 2 Type: SA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

39) Explain the accounting for warranties. Be specific and include in your discussion the principle or objective that governs the accounting method.

Answer: A warranty is a company's guarantee of its products against defects. If a repair is necessary within the warranty period, the company will generally fix the product at no cost to the consumer.

When the product is sold, the company does not know the exact amount of warranty costs it will incur. The matching objective, however, requires that the company record warranty expense in the same time period that the sale was recorded. Therefore, the company must estimate warranty costs at the time the sale is recorded and make an entry as follows:

Warranty Expense

 Estimated Warranty Payable

Upon the payment of actual warranty costs or the delivery of a new product, the company would make the following entry:

Estimated Warranty Payable

 Cash or Inventory

Diff: 2 Type: ES

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Conceptual

Cognitive Taxon: Remember

40) Define a contingent liability. Discuss the *CPA Canada Handbook*'s guidelines on reporting contingencies. Give an example of a contingent liability and indicate how it should be reported.

Answer: A contingent liability is not an actual liability, but rather a potential liability that depends on the outcome of a future event arising out of a past transaction.

The *CPA Canada Handbook* requires that contingent gains be ignored and only actual gains be reported. Contingent losses, however, should sometimes be reported before the actual loss occurs. The guidelines for contingent losses are complicated and relate directly to the probability of occurrence.

Specifically, the *CPA Canada Handbook* requires the recording of a liability if the loss is more likely to occur than not to occur and if the amount can be reasonably estimated. Warranty expense and vacation pay expense are examples of this.

If a loss is likely, but cannot be reasonably estimated, the loss should be reported in the notes to the financial statements. Pending lawsuits against the company are an example of this.

If a loss is remote, unlikely to occur, there is no need to report it at all. The possibility of a foreign government confiscating the assets of a company operating within that country is an example of this.

If it is not possible to determine the likelihood of a loss, than a note disclosure is required.

Diff: 3 Type: ES

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Conceptual

Cognitive Taxon: Remember

41) Answer the following questions briefly and concisely.

a) Why is it important for a company to separate the current portion of long-term debt from the long-term debt?

b) How would the under accrual of warranty expense affect a company's financial statements?

c) What is the difference between a liability and a contingent liability?

d) What are contingent gains and how are they treated?

Answer:

a) It is important for a company to separate out the current portion of long-term debt since not doing so would mislead the users of the financial statements. Ratios such as the current ratio and acid-test ratio would be distorted.

b) The under accrual of warranty expense would cause expenses to be understated and net income to be overstated. Retained earnings (Capital) would be overstated and liabilities would be understated.

c) A liability is an economic obligation payable to an individual or organization outside the business. A contingent liability is a potential liability that will become an actual liability only if a future event occurs.

d) Contingent gains are potential gains that will materialize only if a future event occurs. Contingent gains are not recognized and accrued until the gains are realized because of the conservatism principle of accounting.

Diff: 3 Type: ES

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Conceptual

Cognitive Taxon: Apply

42) The following selected transactions for Sadie's Welding Supplies, an Alberta company, occurred in 2023 and 2024. The company's year-end is December 31 and uses a perpetual inventory system.

|  |  |  |
| --- | --- | --- |
| 2023Oct. | 14 | Purchased an office building for $265,000 plus 5% GST by issuing a 6%, 10-year bond for the building and paid the GST in cash. |
|  | 22 | Sold inventory costing $14,500 to a customer for $42,000 plus GST, 2/10, n/30. |
| Nov. |  1  | Received payment for the October 22nd sale. |
|  | 18 | Purchased inventory costing $23,000 plus GST, 2/15, n/30. |
| Dec. |  331 | Paid for the November 18th purchase.Accrued interest on the bond. |
|  | 31 | Accrued warranty expense on $1,250,000 in sales for the year at the rate of 3.5% of sales. |
|  | 31 | Accrued $74,000 in estimated income tax expense. |
| 2024 |  |  |
| Jan. | 31 | Paid the GST owing for the last quarter ($15,625 collected from customers and $8,720 paid on purchases). |
| Apr. | 14 | Paid the first six month interest installment on the 10 year bond. |
| Jun. |  2 | Paid $4,500 in repair costs for defective products sold under warranty. |

|  |
| --- |
| Required:Record the transactions in the general journal. Use days to calculate any interest accruals and payments. |

Answer:

Page 2

 **Date Account Titles and Explanations PR Debit Credit**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 2023Oct. | 14 | Building |  | 265,000 |  |
|  |  |  Bond payable |  |  | 265,000 |
|  |  |  |  |  |  |
|  | 14 | GST Recoverable |  | 13,250 |  |
|  |  |  Cash |  |  | 13,250 |
|  |  |  |  |  |  |
|  | 22 | A/R |  | 44,100 |  |
|  |  |  GST Payable |  |  |  2,100 |
|  |  |  Sales revenue |  |  | 42,000 |
|  |  |  |  |  |  |
|  | 22 | Cost of goods sold |  | 14,500 |  |
|  |  |  Inventory |  |  | 14,500 |
|  |  |  |  |  |  |
| Nov |  1 | Cash |  | 43,260 |  |
|  |  | Sales discounts |  |  840 |  |
|  |  |  Accounts receivable |  |  | 44,100 |
|  |  |  |  |  |  |
|  | 18 | Inventory |  | 23,000 |  |
|  |  | GST recoverable |  |  1,150 |  |
|  |  |  A/P |  |  | 24,150 |
|  |  |  |  |  |  |
| Dec |  3 | A/P |  | 23,690 |  |
|  |  |  Inventory |  |  |  460 |
|  |  |  Cash |  |  | 24,150 |
|  |  |  |  |  |  |
|  | 31 | Interest expense |  |  3,397.81 |  |
|  |  |  Interest payable |  |  |  3,397.81 |
|  |  | 265,000 × 6% × (78/365) |  |  |  |
|  |  |  |  |  |  |
|  | 31 | Warranty expense |  | 43,750 |  |
|  |  |  Estimated warranty payable |  |  | 43,750 |
|  |  |  |  |  |  |
|  | 31 | Income tax expense |  | 74,000 |  |
|  |  |  Income tax payable |  |  | 74,000 |
|  |  |  |  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 2024Jan. | 31 | GST payable |  | 15,625 |  |
|  |  |  GST recoverable |  |  | 8,720 |
|  |  |  Cash |  |  | 6,905 |
|  |  |  |  |  |  |
| Apr. | 14 | Interest expense |  |  4,530.41 |  |
|  |  | Interest payable |  |  3,397.81 |  |
|  |  |  Cash |  |  |  7,928.22 |
|  |  | 265,000 × 6% × (182/365) |  |  |  |
|  |  |  |  |  |  |
| Jun. |  2 | Estimated warranty payable |  |  4,500 |  |
|  |  |  Cash |  |  |  4,500 |
|  |  |  |  |  |  |

Diff: 2 Type: ES

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

11.3 Compute payroll amounts

1) Gross pay is the total amount of compensation earned by the employee less deductions.

Answer: FALSE

Diff: 1 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-3 Compute payroll amounts

Knowledge Taxon: Factual

Cognitive Taxon: Remember

2) Employee income tax is an optional deduction, which is withheld from the employee's pay.

Answer: FALSE

Diff: 1 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-3 Compute payroll amounts

Knowledge Taxon: Factual

Cognitive Taxon: Remember

3) Payroll deductions withheld from employees become a liability of the employer.

Answer: TRUE

Diff: 1 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-3 Compute payroll amounts

Knowledge Taxon: Factual

Cognitive Taxon: Understand

4) Employment Insurance premiums are imposed on both the employer and the employee.

Answer: TRUE

Diff: 1 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-3 Compute payroll amounts

Knowledge Taxon: Factual

Cognitive Taxon: Remember

5) Canada Pension Plan (CPP) contributions, employment insurance (EI), and personal income taxes are statutory (legally required) payroll deductions.

Answer: TRUE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-3 Compute payroll amounts

Knowledge Taxon: Factual

Cognitive Taxon: Remember

6) The cost of coverage for worker's compensation premiums is the responsibility of the employee.

Answer: FALSE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-3 Compute payroll amounts

Knowledge Taxon: Factual

Cognitive Taxon: Remember

7) Gross pay is the:

A) total amount of compensation earned by the employee.

B) total amount of compensation earned by the employee less deductions.

C) total amount of compensation earned by the employee plus deductions.

D) total amount of compensation earned by the employee plus benefits.

Answer: A

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-3 Compute payroll amounts

Knowledge Taxon: Factual

Cognitive Taxon: Remember

8) Tina Martin works as a cost accountant receiving $520 for a 40-hour work week. She is paid time and one-half for anything over 40 hours. If Tina works 47 hours, her total pay is:

A) $611.00.

B) $520.00.

C) $656.50.

D) $567.00.

Answer: C

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-3 Compute payroll amounts

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

9) The total amount of employee compensation before deductions are taken out is referred to as:

A) gross pay.

B) net pay.

C) compensation after withholdings.

D) take-home pay.

Answer: A

Diff: 1 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-3 Compute payroll amounts

Knowledge Taxon: Factual

Cognitive Taxon: Remember

10) Net pay is equal to:

A) gross pay minus all deductions.

B) all deductions plus all withholdings.

C) take-home pay plus all deductions.

D) straight time plus overtime, if any.

Answer: A

Diff: 1 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-3 Compute payroll amounts

Knowledge Taxon: Factual

Cognitive Taxon: Remember

11) All of the following are optional deductions *except*:

A) charitable contributions.

B) medical insurance.

C) payroll savings programs.

D) employee income taxes.

Answer: D

Diff: 1 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-3 Compute payroll amounts

Knowledge Taxon: Factual

Cognitive Taxon: Understand

12) All of the following are forms of employee compensation *except*:

A) salary.

B) subcontractor fee.

C) wages.

D) commissions.

Answer: B

Diff: 1 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-3 Compute payroll amounts

Knowledge Taxon: Factual

Cognitive Taxon: Understand

13) The total payroll expense of the employer is equal to:

A) net pay plus employee withholdings.

B) gross pay plus employees' income tax.

C) net pay plus employer payroll taxes and fringe benefits.

D) gross pay plus employer payroll contributions and fringe benefits.

Answer: D

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-3 Compute payroll amounts

Knowledge Taxon: Factual

Cognitive Taxon: Understand

**Table 11-6**

Peter Tomach works for a manufacturing company. He earns $600 a week for a 40-hour week and time and a half for anything over 40 hours per week. During the first week of the year, Peter worked 49 hours. The income tax withholdings are 15% of gross earnings. Canada Pension Plan deductions are 4.95% of gross earnings and Employment Insurance deductions are 1.88% of gross earnings. Ignore the basic Canada Pension Plan exemption.

14) Referring to Table 11-6. The amount of Peter's gross pay is:

A) $600.00.

B) $735.00.

C) $802.50.

D) $824.50.

Answer: C

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-3 Compute payroll amounts

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

**Table 11-7**

Camparound Canada has 24 employees who are paid on a monthly basis. For the most recent month, gross earnings were $68,000. The income tax withholdings are 15% of gross earnings. Canada Pension Plan deductions are 4.95% of gross earnings and Employment Insurance deductions are 1.88% of gross earnings. All employees have $15 per month withheld for charitable contributions. Ignore the basic Canada Pension Plan exemption.

15) Referring to Table 11-7, the employer's total share of CPP and EI payroll costs are:

A) $4,637.60.

B) $1,780.24.

C) $4,620.40.

D) $5,155.76.

Answer: D

Explanation: ($68,000 × .0495) + [$68,000 × (.0188 × 1.4)] = $5,155.76

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-3 Compute payroll amounts

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

16) Referring to Table 11-7, the employees' total net pay is:

A) $68,000.00.

B) $53,189.60.

C) $52,795.60.

D) $57,800.00.

Answer: C

Explanation: $68,000 - [$68,000 × (0.15 + .0495 + .0188)] - (24 × $15)

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-3 Compute payroll amounts

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

17) Referring to Table 11-7, Camparound Canada's total payroll cost for the month is:

A) $72,637.60.

B) $73,155.76.

C) $72,620.40.

D) $69,780.24.

Answer: B

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-3 Compute payroll amounts

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

18) Data Services has five hourly employees. Some employees work overtime each week and are paid time and one-half for all work exceeding 40 hours per week. Based on the data below, compute gross pay for each employee.

|  |  |  |
| --- | --- | --- |
| **Employee** | **Hours Worked** | **Pay Rate Per Hour** |
| Mary Jarvis | 45 | $12.00 |
| Wilson Sparks | 50 | $13.50 |
| Eunice Cope | 38 | $11.00 |
| Elmer Beauchamp | 44 | $10.00 |
| Jennifer White | 40 | $12.50 |

Answer:

Mary Jarvis (40 × $12) + (5 × $12 × 1.5) = $480 + $90 = $570.00

Wilson Sparks (40 × $13.50) + (10 × $13.50 × 1.5) = $540 + $202.50 = $742.50

Eunice Cope (38 × $11) = $418

Elmer Beauchamp (40 × $10) + (4 × $10 × 1.5) = $400 + $60 = $460

Jennifer White (40 × $12.50) = $500

Diff: 1 Type: SA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-3 Compute payroll amounts

Knowledge Taxon: Procedural

Cognitive Taxon: Understand

19) The Brown Roof Company has three employees: an hourly employee, a salaried employee, and an employee who works for a flat fee plus commissions. Payroll information for the most recent week is as follows:

Juan is paid $14 per hour with time and one-half for all hours over 40 per week. Juan worked 49 hours this week.

Maria is paid a salary of $900 per week plus a bonus whenever sales exceed $100,000 for any given week. Sales this week were $100,900. The bonus is 5% of sales in excess of $100,000.

Li is paid a flat $100 per week plus a 10% commission on all her sales. Li's sales for this week amount to $6,800.

Employee income taxes equal 15% of gross earnings. CPP and Employment Insurance deductions equal 4.95% and 1.88% of gross earnings respectively. Juan has $10 per week withheld for a charity organization. All employees pay $20 per week for union dues.

a) Compute the gross pay for each employee.

b) Determine the total net pay for all employees combined (ignore annual exemption for the CPP deduction calculation).

[Note: Round all answers to the nearest whole dollar in part (a).]

Answer:

a) Juan (40 × $14) + (9 × $14 × 1.5) = $749

 Maria [$900 + ($900 × 0.05)] = $945

 Li [$100 + ($6,800 × 0.10)] = $780

 Total gross pay for all employees = $749 + $945 + $780 = $2,474

b) Income tax withheld (0.15 × $2,474) = $371.10

 CPP withheld (0.0495 × $2,474) = $122.46

 Employment Insurance withheld (0.0188 × $2,474) = $46.51

 Union dues withheld (3 × 20) = $60.00

 Charitable donations $10.00

 Total deductions $610.07

 Net pay ($2,474.00 - $610.07) = $1,863.93

Diff: 3 Type: SA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-3 Compute payroll amounts

Knowledge Taxon: Procedural

Cognitive Taxon: Understand

**Table 11-17**

Grant Caballero works for a media company. He earns $3,000 a week for a 40-hour week and time and a half for anything over 40 hours per week. During the first week of the year, Grant worked 45 hours. The income tax withholdings are 25% of gross earnings. Canada Pension Plan deductions are 4.95% of gross earnings and Employment Insurance deductions are 1.88% of gross earnings. The worker's compensation premium is 1.6% of gross earnings. Both Grant and the company contribute 5% of gross earnings into a group RRSP. In addition Grant has $25 deducted from his weekly pay to contribute to his favorite charity, Accounting Students' Tutor Fund.

20) Refer to Table 11-17. What is the amount of the employee's share of the Canada Pension Plan payable amount if the exemption is used in the calculation?

Answer: [$3,562.50 - ($3,500/52 weeks)] × 4.95% = $173.01

Diff: 3 Type: SA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-3 Compute payroll amounts

Knowledge Taxon: Procedural

Cognitive Taxon: Understand

11.4 Record basic payroll transactions

1) The entry to record the employer's contribution for Employment Insurance (EI) and Canada Pension Plan (CPP) includes a debit to Employee Benefits Expense.

Answer: TRUE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-4 Record basic payroll transactions

Knowledge Taxon: Factual

Cognitive Taxon: Remember

2) The entry to record the salary owed to employees and corresponding deductions includes a debit to salary payable.

Answer: FALSE

Diff: 1 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-4 Record basic payroll transactions

Knowledge Taxon: Factual

Cognitive Taxon: Remember

3) All of the following are payroll costs that are expenses of the employer *except*:

A) Workers' Compensation Plan premiums.

B) Employee income taxes.

C) Employment Insurance premiums.

D) Canada Pension Plan contributions.

Answer: B

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-4 Record basic payroll transactions

Knowledge Taxon: Factual

Cognitive Taxon: Remember

**Table 11-6**

Peter Tomach works for a manufacturing company. He earns $600 a week for a 40-hour week and time and a half for anything over 40 hours per week. During the first week of the year, Peter worked 49 hours. The income tax withholdings are 15% of gross earnings. Canada Pension Plan deductions are 4.95% of gross earnings and Employment Insurance deductions are 1.88% of gross earnings. Ignore the basic Canada Pension Plan exemption.

4) Referring to Table 11-6. The entry to record salary expense includes a:

A) debit to Salary Payable to Employees.

B) debit to Employee Income Tax Expense.

C) credit to Employee Income Tax Payable.

D) credit to Employee Benefits Expense.

Answer: C

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-4 Record basic payroll transactions

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

5) Referring to Table 11-6. The entry to record the employer's portion of Canada Pension Plan expense includes a:

A) credit to Salary Payable to Employees.

B) credit to Employee Benefits Expense.

C) debit to Salary Expense.

D) credit to Canada Pension Plan Payable.

Answer: D

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-4 Record basic payroll transactions

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

6) Referring to Table 11-6, the entry to record the payroll for Peter would include a:

A) debit to Salary Payable to Employees for $802.50.

B) credit to Employee Income Tax Payable for $120.38.

C) credit to Canada Pension Plan Payable for $15.01.

D) credit to Employee Benefits Expense for $54.73.

Answer: B

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-4 Record basic payroll transactions

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

7) Referring to Table 11-6, the entry to record the payroll costs imposed on the employer would include a:

A) debit to Canada Pension Plan Expense of $39.72.

B) credit to Employee Income Tax Payable for $120.38.

C) debit to Salary Expense for $600.

D) credit to Employment Insurance Payable for $15.01.

Answer: A

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-4 Record basic payroll transactions

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

**Table 11-7**

Camparound Canada has 24 employees who are paid on a monthly basis. For the most recent month, gross earnings were $68,000. The income tax withholdings are 15% of gross earnings. Canada Pension Plan deductions are 4.95% of gross earnings and Employment Insurance deductions are 1.88% of gross earnings. All employees have $15 per month withheld for charitable contributions. Ignore the basic Canada Pension Plan exemption.

8) Referring to Table 11-7, the entry to record salary expense includes a:

A) credit to Salary Expense for $68,000.00.

B) debit to Employment Insurance Payable for $1,742.16.

C) debit to Employee Income Tax Payable for $10,200.00.

D) credit to Canada Pension Plan Payable for $3,366.00.

Answer: D

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-4 Record basic payroll transactions

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

9) Referring to Table 11-7, the entry to record the employer's payroll costs includes a:

A) debit to Payroll Tax Payable for $14,484.

B) credit to Employee Income Tax Payable for $10,200.

C) debit to Canada Pension Plan Expense for $3,366.

D) credit to Canada Pension Plan Expense for $3,366.

Answer: C

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-4 Record basic payroll transactions

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

**Table 11-15**

Sally Lee works for a tugboat company. She earns $900 a week for a 40-hour week and time and a half for anything over 40 hours per week. During the first week of the year, Sally worked 43 hours. The income tax withholdings are 20% of gross earnings. Canada Pension Plan deductions are 4.95% of gross earnings and Employment Insurance deductions are 1.88% of gross earnings. The worker's compensation premium is 1.6% of gross earnings. Ignore the basic Canada Pension Plan exemption.

10) Refer to Table 11-15. What is the correct journal entry to record the salary expense?

A)

|  |  |  |
| --- | --- | --- |
| Salary expense - regular | 900.00 |  |
|  Income tax payable |  | 180.00 |
|  CPP payable |  | 44.55 |
|  EI payable |  | 16.47 |
|  Cash |  | 658.98 |
| Salary expense - overtime | 101.25 |  |
|  Cash |  | 101.25 |

B)

|  |  |  |
| --- | --- | --- |
| Salary expense  | 1,001.25 |  |
|  Income tax payable |  |  200.25 |
|  CPP payable |  | 49.56 |
|  EI payable |  | 18.82 |
|  Cash |  | 732.62 |

C)

|  |  |  |
| --- | --- | --- |
| Salary expense | 1,001.25 |  |
|  Income tax payable |  | 200.25 |
|  CPP payable |  | 49.56 |
|  EI payable |  |  18.32 |
|  Worker's compensation payable |  | 16.02 |
|  Cash |  |  717.10 |

D)

|  |  |  |
| --- | --- | --- |
| Salary expense  | 1,001.25 |  |
|  Income tax payable |  |  200.25 |
|  CPP payable |  | 49.56 |
|  EI payable |  | 25.65 |
|  Cash |  |  728.79 |

Answer: B

Explanation: Gross pay = $900 + [($900/40) × 1.5 × 3)] = $1,001.25

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-4 Record basic payroll transactions

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

11) Refer to Table 11-15. What is the amount of the CPP deduction if the basic exemption is included in the calculation?

A) $0

B) $49.56

C) $52.89

D) $46.23

Answer: D

Explanation: [$1,001.25 - ($3,500/52 weeks)] × 4.95% = $46.23

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-4 Record basic payroll transactions

Knowledge Taxon: Procedural

Cognitive Taxon: Understand

12) Refer to Table 11-15. What is the correct journal entry to record the employer's share of the withholdings?

A)

|  |  |  |
| --- | --- | --- |
| Employee benefits expense |  91.93 |  |
|  CPP payable |  | 49.56 |
|  EI payable |  | 26.35 |
|  Worker's compensation payable |  | 16.02 |

B)

|  |  |  |
| --- | --- | --- |
| Employee benefits expense |  91.23 |  |
|  CPP payable |  | 49.56 |
|  EI payable |  | 25.65 |
|  Worker's compensation payable |  | 16.02 |

C)

|  |  |  |
| --- | --- | --- |
| Employee benefits expense |  75.21 |  |
|  CPP payable |  | 49.56 |
|  EI payable |  | 25.65 |

D)

|  |  |  |
| --- | --- | --- |
| Employee benefits expense | 67.88 |  |
|  CPP payable |  | 49.56 |
|  EI payable |  |  18.32 |

Answer: A

Explanation: EI 18.82 × 1.4 = 26.35

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-4 Record basic payroll transactions

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

**Table 11-16**

Sandra Singh works as the manager for the Shmenge Brothers music store. She earns $1,200 a week for a 40-hour week and time and a half for anything over 40 hours per week. During the first week of the year, Sandra worked 46 hours. The income tax withholdings are 20% of gross earnings. Canada Pension Plan deductions are 4.95% of gross earnings and Employment Insurance deductions are 1.88% of gross earnings. The worker's compensation premium is 1.6% of gross earnings. Ignore the basic Canada Pension Plan exemption.

13) Refer to Table 11-16. What is the correct journal entry to record the salary expense?

A)

|  |  |  |
| --- | --- | --- |
| Salary expense - regular | 1,200.00 |  |
|  Income tax payable |  | 240.00 |
|  CPP payable |  | 59.40 |
|  EI payable |  | 21.96 |
|  Cash |  | 878.64 |
| Salary expense - overtime |  270.00 |  |
|  Cash |  |  270.00 |

B)

|  |  |  |
| --- | --- | --- |
| Salary expense  | 1,470.00 |  |
|  Income tax payable |  | 294.00 |
|  CPP payable |  | 72.77 |
|  EI payable |  | 27.64 |
|  Cash |  | 1,075.59 |

C)

|  |  |  |
| --- | --- | --- |
| Salary expense | 1,470.00 |  |
|  Income tax payable |  | 294.00 |
|  CPP payable |  | 72.77 |
|  EI payable |  | 26.90 |
|  Worker's compensation payable |  |  23.52 |
|  Cash |  | 1,052.81 |

D)

|  |  |  |
| --- | --- | --- |
| Salary expense  | 1,470.00 |  |
|  Income tax payable |  | 294.00 |
|  CPP payable |  | 72.77 |
|  EI payable |  |  37.66 |
|  Cash |  | 1,065.57 |

Answer: B

Explanation: Gross pay = $1,200 + [($1,200/40) × 1.5 × 6)] = $1,470.00

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-4 Record basic payroll transactions

Knowledge Taxon: Factual

Cognitive Taxon: Apply

14) Refer to Table 11-16. What is the amount of the CPP deduction if the basic exemption is included in the calculation?

A) $0

B) $72.77

C) $76.11

D) $69.43

Answer: D

Explanation: [$1,470.00 - ($3,500/52 weeks)] × 4.95% = $69.43

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-4 Record basic payroll transactions

Knowledge Taxon: Procedural

Cognitive Taxon: Understand

15) Refer to Table 11-16. What is the correct journal entry to record the employer's share of the withholdings?

A)

|  |  |  |
| --- | --- | --- |
| Employee benefits expense | 119.85 |  |
|  CPP payable |  |  69.43 |
|  EI payable |  | 26.90 |
|  Worker's compensation payable |  |  23.52 |

B)

|  |  |  |
| --- | --- | --- |
| Employee benefits expense | 131.64 |  |
|  CPP payable |  |  72.77 |
|  EI payable |  |  38.69 |
|  Worker's compensation payable |  |  23.52 |

C)

|  |  |  |
| --- | --- | --- |
| Employee benefits expense | 99.67 |  |
|  CPP payable |  |  72.77 |
|  EI payable |  | 26.90 |

D)

|  |  |  |
| --- | --- | --- |
| Employee benefits expense | 110.43 |  |
|  CPP payable |  |  72.77 |
|  EI payable |  | 37.66 |

Answer: B

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-4 Record basic payroll transactions

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

16) Harold Munster earned $2,400 in wages and $650 in sales commissions for the month of November. Harold's payroll deductions include income tax of 15 percent, Canada Pension of 4.95 percent on earnings and Employment Insurance of 1.88 percent on earnings.

Prepare the journal entries to record the payroll and the payroll taxes imposed on Harold Munster. Explanations are not required and ignore the annual exemption for the CPP calculation.

Answer:

 **General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Accounts** | **Debit** | **Credit** |
| Nov. 30 | Salary Expense | 3,050.00 |  |
|  |  Employee Withheld Inc. Tax Payable |  | 457.50 |
|  |  Canada Pension Payable |  | 150.98 |
|  |  Employment Insurance Payable |  | 57.34 |
|  |  Salary Payable |  | 2,384.18 |
|  |  |  |  |
| 30 | Employee Benefits Expense | 231.26 |  |
|  |  Canada Pension Payable |  | 150.98 |
|  |  Employment Insurance Payable |  | 80.28 |

Diff: 3 Type: ES

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-4 Record basic payroll transactions

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

17) M & D Company has numerous employees who are paid on a monthly basis. Payroll information for August of the current year is given below.

Employee compensation $135,000

Union dues 1,450

Charitable contributions 875

Employee CPP contributions 4,320

Employee EI contributions 2,336

Employee income tax withheld 20,250

Prepare the journal entries to record the August payroll and the payroll benefits expense for M & D Company for August. Also prepare the entries to record the payment of payroll withholdings to the government and other agencies on September 15. Explanations are not required.

Answer:

 **General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Accounts** | **Debit** | **Credit** |
| Aug. 31 | Salary Expense | 135,000 |  |
|  |  Employee Withheld Inc. Tax Payable |  | 20,250 |
|  |  Canada Pension Plan Payable |  | 4,320 |
|  |  Employment Insurance Payable |  | 2,336 |
|  |  Union Dues Payable |  | 1,450 |
|  |  Charitable Contributions Payable |  | 875 |
|  |  Salary Payable |  | 105,769 |
|  |  |  |  |
| 31 | Employee Benefits Expense | 7,590.40 |  |
|  |  Canada Pension Plan Payable |  | 4,320 |
|  |  Employment Insurance Payable |  | 3,270.40 |
|  |  |  |  |
| Sept. 15 | Employee Income Tax Payable | 20,250 |  |
|  | Canada Pension Plan Payable | 8,640 |  |
|  | Employment Insurance Payable | 5,606.40 |  |
|  |  Cash |  | 34,496.40 |
|  |  |  |  |
| 15 | Charitable Contributions Payable | 875 |  |
|  | Union Dues Payable | 1,450 |  |
|  |  Cash |  | 2,325 |

Diff: 3 Type: ES

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-4 Record basic payroll transactions

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

**Table 11-17**

Grant Caballero works for a media company. He earns $3,000 a week for a 40-hour week and time and a half for anything over 40 hours per week. During the first week of the year, Grant worked 45 hours. The income tax withholdings are 25% of gross earnings. Canada Pension Plan deductions are 4.95% of gross earnings and Employment Insurance deductions are 1.88% of gross earnings. The worker's compensation premium is 1.6% of gross earnings. Both Grant and the company contribute 5% of gross earnings into a group RRSP. In addition Grant has $25 deducted from his weekly pay to contribute to his favorite charity, Accounting Students' Tutor Fund.

18) Refer to Table 11-17. Prepare the journal entries to record the salary expense and the employer's share of the withholdings for the first week in January. Ignore the basic Canada Pension Plan exemption.

Answer:

 **Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Accounts** | **Debit** | **Credit** |
|  | Salary Expense  | 3,562.50  |  |
|  |  Income Tax Payable |   | 890.63 |
|  |  CPP Payable |   | 176.34 |
|  |  EI Payable  |  | 66.98  |
|  |  RRSP Payable |   | 178.13 |
|  |  AS Tutor Fund Payable |   | 25.00 |
|  |  Cash |   | 2,225.42 |
|  |   |  |   |
|  | Benefits Expense  | 505.24 |  |
|  |  CPP Payable |   | 176.34 |
|  |  EI Payable |   | 93.77 |
|  |  WCB Payable  |  | 57.00  |
|  |  RRSP Payable |   | 178.13 |
|  |   |   |  |
|  |   |   |  |
|  |   |  |   |

Explanation: Gross pay = $3,000 + ($3,000/40 hours) × 1.5 × 5 = $3,562.50

Diff: 3 Type: SA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-4 Record basic payroll transactions

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

**Table 11-18**

Maritime Industries is a fabrication business located in Fredericton, NB. The following payroll register contains payroll information for the week ended August 21, 2023. All employees donate $20 per pay to the United Way, the federal income tax rate is 10%, the provincial income tax rate is 8%, the CPP rate is 4.95% and the EI rate is 1.88%.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Employee Name** | **Weekly****Gross****Pay** | **Federal****Income****Tax** | **Provincial****Income****Tax** | **CPP** | **EI** | **Donation** | **Total****Deductions** | **Net Pay** |
| Garnett, A | $1,200 |  |  |  |  |  |  |  |
| Kelly, D.V | $900 |  |  |  |  |  |  |  |
| Molloy, N | $1,400 |  |  |  |  |  |  |  |
| Whiting, A | $1,050 |  |  |  |  |  |  |  |
| Total | $4,550 |  |  |  |  |  |  |  |

19) Complete the payroll register in Table 11-18. Calculate all deductions as well as total deductions and net pay and total each column in the table.

Answer:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Employee Name** | **Weekly****Gross****Pay** | **Federal****Income****Tax** | **Provincial****Income****Tax** | **CPP** | **EI** | **Don.** | **Total****Ded.** | **Net Pay** |
| Garnett, A | $1,200 | 120.00 |  96.00 | 56.07 | 22.56 | 20.00 |  314.63 |  885.37 |
| Kelly, D.V |  $900 |  90.00 |  72.00 | 41.22 | 16.92 | 20.00 |  240.14 |  659.86 |
| Molloy, N | $1,400 | 140.00 | 112.00 | 65.97 | 26.32 | 20.00 |  364.29 | 1,035.71 |
| Whiting, A | $1,050 | 105.00 |  84.00 | 48.64 | 19.74 | 20.00 |  277.38 |  772.62 |
| Total | $4,550 | 455.00 | 364.00 | 211.90 | 85.54 | 80.00 | 1,196.44 | 3,353.56 |

Diff: 2 Type: ES

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-4 Record basic payroll transactions

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

20) Refer to Table 11-18. Prepare a general journal entry to record the totals in the payroll register for the week ending August 21, 2023 assuming the wages will be paid the following week.

Answer:

Page 2

 **Date Account Titles and Explanations PR Debit Credit**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Aug | 21 | Wage expense |  | 4,550.00 |  |
|  |  |  Federal income tax payable |  |  | 455.00 |
|  |  |  Provincial Income tax payable |  |  | 364.00 |
|  |  |  CPP payable |  |  | 211.90 |
|  |  |  EI payable |  |  | 85.54 |
|  |  |  Donation payable |  |  | 80.00 |
|  |  |  Wages payable |  |  | 3,353.56 |

Diff: 2 Type: ES

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-4 Record basic payroll transactions

Knowledge Taxon: Procedural

Cognitive Taxon: Understand

21) Refer to Table 11-18. Prepare a journal entry to record the employer's payroll deductions on August 21, 2023.

Answer:

Page 2

 **Date Account Titles and Explanations PR Debit Credit**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Aug | 21 | Employee benefits expense |  | 331.66 |  |
|  |  |  CPP payable |  |  | 211.90 |
|  |  |  EI payable |  |  | 119.76 |

Diff: 2 Type: ES

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-4 Record basic payroll transactions

Knowledge Taxon: Procedural

Cognitive Taxon: Understand

11.5 Report current liabilities on the balance sheet

1) The components of the payroll system are a payroll register, payroll cheques, and an earnings record for each employee.

Answer: TRUE

Diff: 1 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-5 Report current liabilities on the balance sheet

Knowledge Taxon: Factual

Cognitive Taxon: Remember

2) The duties of hiring and terminating employees should be separated from payroll accounting and from access to pay cheques.

Answer: TRUE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-5 Report current liabilities on the balance sheet

Knowledge Taxon: Factual

Cognitive Taxon: Remember

3) Current liabilities:

A) are subtracted from long-term liabilities on the balance sheet.

B) must be of a known amount.

C) must be of an estimated amount.

D) are due within one year or one operating cycle, whichever is longer.

Answer: D

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-5 Report current liabilities on the balance sheet

Knowledge Taxon: Factual

Cognitive Taxon: Remember

**Table 11-3**

Bentley Enterprises purchased $8,000 of inventory by issuing a six-month, 7.5% note payable on November 1, 2023. Bentley has a December 31 year end.

4) Refer to Table 11-3. The December 31, 2023, balance sheet would report:

A) an interest payable of $100.

B) an interest expense of $300.

C) a note payable of $8,100.

D) a note payable of $8,200.

Answer: A

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-5 Report current liabilities on the balance sheet

Knowledge Taxon: Conceptual

Cognitive Taxon: Remember

**Table 11-4**

Lumas Company gives a $50,000, 180-day note payable to its bank at 9% on September 15, 2023 for a cash loan. Lumas has a December 31 year end.

5) Refer to Table 11-4. The December 31, 2023, balance sheet would report a(n):

A) note payable of $50,900.00.

B) interest payable of $51,319.18.

C) note payable of $1,319.18.

D) interest payable of $1,319.18.

Answer: D

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-5 Report current liabilities on the balance sheet

Knowledge Taxon: Conceptual

Cognitive Taxon: Remember

6) Interest payable is classified as a(n):

A) contra asset.

B) asset.

C) long-term liability.

D) current liability.

Answer: D

Diff: 1 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-5 Report current liabilities on the balance sheet

Knowledge Taxon: Factual

Cognitive Taxon: Remember

7) Reporting a current liability as long term:

A) overstates working capital.

B) understates the current ratio.

C) has no effect on the acid-test ratio.

D) understates working capital.

Answer: A

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-5 Report current liabilities on the balance sheet

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

8) All of the following are components of a payroll system *except* a(n):

A) payroll sinking fund.

B) payroll register.

C) payroll cheques.

D) employee earnings record.

Answer: A

Diff: 1 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-5 Report current liabilities on the balance sheet

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

9) The information needed to record salary expense for the period comes from the:

A) employee earnings record.

B) T1 Special.

C) TD1 form.

D) payroll register.

Answer: D

Diff: 1 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-5 Report current liabilities on the balance sheet

Knowledge Taxon: Factual

Cognitive Taxon: Remember

10) The payroll register includes a column for all of the following *except*:

A) income taxes.

B) Workers' Compensation Board.

C) cheque number.

D) total deductions.

Answer: B

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-5 Report current liabilities on the balance sheet

Knowledge Taxon: Factual

Cognitive Taxon: Remember

11) Current liabilities on the balance sheet would include all of the following *except*:

A) accrued expenses.

B) estimated liabilities.

C) earned revenues.

D) unearned revenues.

Answer: C

Diff: 1 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-5 Report current liabilities on the balance sheet

Knowledge Taxon: Conceptual

Cognitive Taxon: Remember

12) Which of the following is *not* an advantage of paying employees using electronic funds transfer (EFT)?

A) reduced salary expense

B) reduced administrative costs

C) no lost pay cheques

D) ensures that appropriate employee is paid

Answer: A

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-5 Report current liabilities on the balance sheet

Knowledge Taxon: Factual

Cognitive Taxon: Remember

13) Which of the following is an important internal control over payroll?

A) separating the duties of the disbursement of paychecks from the recording of payroll transactions in the ledger

B) separating the duties of safeguarding property from record-keeping of property

C) separating the duties of approving invoices from signing disbursement checks

D) separating the duties of cash disbursement from bank reconciliations

Answer: A

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-5 Report current liabilities on the balance sheet

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

14) Given the list of items below, show how each would be classified on the balance sheet and indicate whether the amount is known or based on an estimate. The first item is completed as an example.

|  |  |  |  |
| --- | --- | --- | --- |
| **Item** | **Account** | **Classification** | **Known****Amount or****An Estimate** |
| a) | Salary payable | current liability | known |
| b) | Sales tax payable |  |  |
| c) | Accounts payable |  |  |
| d) | Customer deposits payable |  |  |
| e) | Employee income tax payable |  |  |
| f) | Employment insurance payable |  |  |
| g) | Note payable (due in six months) |  |  |
| h) | Unearned rent revenue (to be earned in 12 months) |  |  |
| i) | Note payable (due in three months) |  |  |
| j) | Unearned rent revenue (to be earned in six months) |  |  |
| k) | Estimated warranty payable (to expire in three months) |  |  |
| l) | Contingent liability that is likely and cannot be reasonable estimated |  |  |
| m) | Estimated vacation pay liability |  |  |

Answer:

|  |  |  |  |
| --- | --- | --- | --- |
| **Item** | **Account** | **Classification** | **Known****Amount or****An Estimate** |
| a) | Salary payable | current liability | known |
| b) | Sales tax payable | current liability | known |
| c) | Accounts payable | current liability | known |
| d) | Customer deposits payable | current liability | known |
| e) | Employee income tax payable | current liability | known |
| f) | Employment insurance payable | current liability | known |
| g) | Note payable (due in six months) | current liability | known |
| h) | Unearned rent revenue (to be earned in 12 months) | current liability | known |
| i) | Note payable (due in three months) | current liability | known |
| j) | Unearned rent revenue (to be earned in six months) | current liability | known |
| k) | Estimated warranty payable (to expire in three months) | current liability | estimate |
| l) | Contingent liability that is likely and cannot be reasonable estimated | not reported on face of balance sheet, disclose in note | estimate |
| m) | Estimated vacation pay liability | current liability | estimate |

Diff: 2 Type: SA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-5 Report current liabilities on the balance sheet

Knowledge Taxon: Factual

Cognitive Taxon: Remember

**Table 11-8**

BCN Bank agrees to lend Samson Company $80,000 on January 1. Samson Company signs an $80,000, 5%, 9-month note.

15) Refer to Table 11-8. Show how the note and any related interest will appear on the June 30 balance sheet of Samson Company. Be specific about the classification of the amounts on the balance sheet.

Answer:

Current Liabilities:

 Note Payable, due September 30 $80,000

 Interest Payable 2,000

Diff: 2 Type: SA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-5 Report current liabilities on the balance sheet

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

16) Answer the following questions briefly and concisely.

a) Why is it important for a company to separate the current portion of long-term debt from the long-term debt?

b) How would the under accrual of warranty expense affect a company's financial statements?

c) What is the difference between a liability and a contingent liability?

d) What are contingent gains and how are they treated?

Answer:

a) It is important for a company to separate out the current portion of long-term debt since not doing so would mislead the users of the financial statements. Ratios such as the current ratio and acid-test ratio would be distorted.

b) The under accrual of warranty expense would cause expenses to be understated and net income to be overstated. Retained earnings (Capital) would be overstated and liabilities would be understated.

c) A liability is an economic obligation payable to an individual or organization outside the business. A contingent liability is a potential liability that will become an actual liability only if a future event occurs.

d) Contingent gains are potential gains that will materialize only if a future event occurs. Contingent gains are not recognized and accrued until the gains are realized because of the conservatism principle of accounting.

Diff: 3 Type: ES

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 11-5 Report current liabilities on the balance sheet

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

11.6 Describe the impact of IFRS on current liabilities

1) Under IFRS the preferred term for accounts payable is provisions.

Answer: FALSE

Diff: 2 Type: TF

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 11-6 Describe the impact of IFRS on current liabilities

Knowledge Taxon: Factual

Cognitive Taxon: Remember

2) Under both ASPE and IFRS, obligations to parties outside the company are typically carried at their fair value.

Answer: TRUE

Diff: 2 Type: TF

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 11-6 Describe the impact of IFRS on current liabilities

Knowledge Taxon: Conceptual

Cognitive Taxon: Remember

3) With respect to current liabilities, in what area is the main difference between international financial reporting standards (IFRS) and accounting standards for private enterprises (ASPE)?

A) terminology

B) valuation

C) presentation

D) measurement

Answer: A

Diff: 2 Type: MC

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 11-6 Describe the impact of IFRS on current liabilities

Knowledge Taxon: Conceptual

Cognitive Taxon: Remember

4) Under international financial reporting standards (IFRS) what is the preferred terminology for accrued liabilities?

A) provisions

B) obligations

C) trade payables

D) current debt

Answer: A

Diff: 2 Type: MC

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 11-6 Describe the impact of IFRS on current liabilities

Knowledge Taxon: Factual

Cognitive Taxon: Remember

5) Describe the impact on current liabilities of international financial reporting standards.

Answer:

- Current liabilities are typically carried at their fair value, so the way Canadian companies now determine the values of their current liabilities will not change if they report under IFRS.

- Under IFRS, the preferred terms are *trade payables* and *provisions* for *accounts payable* and *accrued liabilities*, but these terms are optional for Canadian companies reporting under IFRS.

Diff: 2 Type: ES

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 11-6 Describe the impact of IFRS on current liabilities

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

Matching quiz - Multiple Objectives

*Match the following.*

A) Employment Insurance contributions

B) HST Payable

C) interest payable

D) contingent liability

E) provisions

F) liability

G) Operating line of credit

H) HST Recoverable

I) current liability

J) warranty

K) benefits

L) Canada Pension Plan contributions

M) gross pay

N) deductions

O) employees' income tax payable

P) net pay

Q) Workers' Compensation premiums

1) A potential liability that depends on a future event arising out of past events

Diff: 1 Type: MA

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 11-2 Account for current liabilities that must be estimated

Knowledge Taxon: Factual

Cognitive Taxon: Remember

2) An obligation to transfer assets or to provide services in the future

Diff: 1 Type: MA

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Factual

Cognitive Taxon: Remember

3) An account related to notes payable

Diff: 1 Type: MA

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Factual

Cognitive Taxon: Remember

4) A bank loan that is negotiated once, then drawn down upon when needed

Diff: 1 Type: MA

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Factual

Cognitive Taxon: Remember

5) The tax account debited when goods are purchased

Diff: 1 Type: MA

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

6) Product guarantee against defects

Diff: 1 Type: MA

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 11-1 Account for current liabilities of known amount

Knowledge Taxon: Factual

Cognitive Taxon: Remember

7) A contribution withheld from employees' pay and matched by the employer

Diff: 1 Type: MA

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 11-3 Compute payroll amounts

Knowledge Taxon: Factual

Cognitive Taxon: Remember

8) A contribution withheld from employees' pay and matched by the employer at the rate of 1.4 times that of the employee's contribution

Diff: 1 Type: MA

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 11-3 Compute payroll amounts

Knowledge Taxon: Factual

Cognitive Taxon: Remember

9) Income tax deducted from employees' total compensation

Diff: 1 Type: MA

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 11-3 Compute payroll amounts

Knowledge Taxon: Factual

Cognitive Taxon: Remember

10) Premiums paid by employers which is used to pay benefits to employees who are injured at work

Diff: 1 Type: MA

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 11-3 Compute payroll amounts

Knowledge Taxon: Factual

Cognitive Taxon: Remember

11) Total amount of employee compensation before taxes and other deductions are taken out

Diff: 1 Type: MA

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 11-3 Compute payroll amounts

Knowledge Taxon: Factual

Cognitive Taxon: Remember

12) The amount of employee compensation that the employee actually takes home

Diff: 1 Type: MA

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 11-3 Compute payroll amounts

Knowledge Taxon: Factual

Cognitive Taxon: Remember

13) Amounts withheld from an employee's cheque

Diff: 1 Type: MA

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 11-3 Compute payroll amounts

Knowledge Taxon: Factual

Cognitive Taxon: Remember

14) Extra compensation items not paid directly to the employee

Diff: 1 Type: MA

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 11-3 Compute payroll amounts

Knowledge Taxon: Factual

Cognitive Taxon: Remember

15) A debt due to be paid within one year or one operating cycle, if the cycle is longer than one year

Diff: 1 Type: MA

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 11-5 Report current liabilities on the balance sheet

Knowledge Taxon: Factual

Cognitive Taxon: Remember

16) Accrued liabilities

Diff: 1 Type: MA

CPA Competency: 1.1.2 Evaluates the appropriateness of the basis of financial reporting

Objective: 11-5 Report current liabilities on the balance sheet

Knowledge Taxon: Factual

Cognitive Taxon: Remember

Answers: 1) D 2) F 3) C 4) G 5) H 6) J 7) L 8) A 9) O 10) Q 11) M 12) P 13) N 14) K 15) I 16) E