

CHAPTER 11

CURRENT LIABILITIES AND PAYROLL ACCOUNTING

SUMMARY OF QUESTIONS BY LEARNING OBJECTIVES AND BLOOM'S TAXONOMY

Item	LO	BT	Item	LO	BT	Item	LO	BT	Item	LO	BT	Item	LO	BT
True-False Statements														
1.	1	C	9.	2	C	17.	3	K	25.	7	K	^{sg} 33.	3	K
2.	1	K	10.	2	K	18.	4	AP	26.	8	C	^{sg} 34.	5	C
3.	1	C	11.	2	C	19.	4	K	27.	8	C	^{sg} 35.	6	K
4.	1	C	12.	2	K	20.	5	K	28.	8	C	^{sg} 36.	7	K
5.	2	K	13.	3	K	21.	5	K	29.	8	K	^{sg} 37.	8	K
6.	2	K	14.	3	C	22.	5	C	^a 30.	9	K	^{sg,a} 38.	9	K
7.	2	C	15.	3	AP	23.	6	K	^{sg} 31.	1	K			
8.	2	AP	16.	3	C	24.	6	K	^{sg} 32.	2	K			
Multiple Choice Questions														
39.	1	K	65.	2	AN	91.	3	AP	117.	6	K	143.	8	K
40.	1	C	66.	2	AP	92.	3	AP	118.	6	K	144.	8	K
41.	1	K	67.	2	AP	93.	3	K	119.	6	K	^a 145.	9	K
42.	1	K	68.	2	AP	94.	3	AP	120.	6	K	^a 146.	9	AP
43.	1	K	69.	2	AP	95.	3	C	121.	6	K	^a 147.	9	C
44.	1	C	70.	2	AP	96.	3	C	122.	6	K	^a 148.	9	K
45.	1	C	71.	2	AP	97.	4	K	123.	6	K	st 149.	1	K
46.	1	C	72.	3	AP	98.	4	AP	124.	6	K	^{sg} 150.	1	K
47.	1	C	73.	3	AP	99.	4	C	125.	6	C	^{sg} 151.	2,3	K
48.	2	K	74.	3	C	100.	4	AP	126.	6	C	st 152.	4	K
49.	2	K	75.	3	C	101.	5	C	127.	6	C	^{sg} 153.	5	C
50.	2	K	76.	3	AP	102.	5	AP	128.	6	C	st 154.	5	K
51.	2	C	77.	3	C	103.	5	C	129.	7	C	^{sg} 155.	6	AP
52.	2	AP	78.	3	C	104.	5	K	130.	7	C	st 156.	6	K
53.	2	AN	79.	3	AP	105.	5	K	131.	6	AP	^{sg} 157.	6	K
54.	2	AP	80.	3	AP	106.	5	K	132.	6	AP	st 158.	7	K
55.	2	C	81.	3	AP	107.	5	K	133.	7	C	^{sg} 159.	7	K
56.	2	C	82.	3	C	108.	5	K	134.	6	C	^{st,a} 160.	10	K
57.	2	AN	83.	3	K	109.	5	C	135.	6	C	161.	10	K
58.	2	AN	84.	3	AP	110.	5	K	136.	7	C	162.	10	K
59.	2	AP	85.	3	K	111.	5	AP	137.	7	C	163.	10	K
60.	2	C	86.	3	K	112.	5	AP	138.	7	C	164.	10	K
61.	3	C	87.	3	K	113.	5	K	139.	7	C	165.	10	K
62.	3	K	88.	3	K	114.	5	K	140.	7	K	166.	10	K
63.	3	K	89.	3	C	115.	4	K	141.	7	K			
64.	2	AN	90.	3	AP	116.	6	K	142.	7	AP			
Brief Exercises														
167.	1	C	169.	2	AP	171.	3	AP	173.	6	AP	175.	7	AP
168.	1	K	170.	3	AP	172.	5	AN	174.	6	AP	^a 176.	9	AP

^{sg} This question also appears in the Study Guide.

st This question also appears in a self-test at the student companion website.

^a This question covers a topic in an appendix to the chapter.

SUMMARY OF QUESTIONS BY LEARNING OBJECTIVES AND BLOOM'S TAXONOMY

Exercises														
177.	1,4	AP	183.	3	AP	189.	3	AP	195.	6	AP	201.	7	AP
178.	2	AP	184.	3	AP	190.	5	AP	196.	6,7	AN	202.	7	AP
179.	2	AP	185.	3,5	AP	191.	5,9	AP	197.	6,7	AP	203.	8	AP
180.	2	AN	186.	4	AN	192.	6	AP	198.	6,7	AP			
181.	3	AN	187.	4	S	193.	6	AP	199.	6,7	AP			
182.	5	AN	188.	5	AP	194.	6	AP	200.	7	AP			
Completion Statements														
204.	1	K	206.	2	K	208.	3	K	210.	5	K	212.	7	K
205.	1	K	207.	2	K	209.	4	K	211.	6	AP	213.	7	K
Matching Statements														
214.	6	K												
Short-Answer Essay														
215.	5	K	217.	6	K	219.	8	K						
216.	5	K	218.	7	K	220.	7	K						

SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type
Learning Objective 1													
1.	TF	4.	TF	40.	MC	43.	MC	46.	MC	150.	MC	177.	Ex
2.	TF	31.	TF	41.	MC	44.	MC	47.	MC	167.	BE	204.	C
3.	TF	39.	MC	42.	MC	45.	MC	149.	MC	168.	BE	205.	C
Learning Objective 2													
5.	TF	11.	TF	51.	MC	57.	MC	65.	MC	71.	MC	206.	C
6.	TF	12.	TF	52.	MC	58.	MC	66.	MC	151.	MC	207.	C
7.	TF	32.	TF	53.	MC	59.	MC	67.	MC	169.	BE		
8.	TF	48.	MC	54.	MC	60.	MC	68.	MC	178.	Ex		
9.	TF	49.	MC	55.	MC	63.	MC	69.	MC	179.	Ex		
10.	TF	50.	MC	56.	MC	64.	MC	70.	MC	180.	Ex		
Learning Objective 3													
13.	TF	62.	MC	77.	MC	84.	MC	91.	MC	170.	BE	189.	Ex
14.	TF	63.	MC	78.	MC	85.	MC	92.	MC	171.	BE	208.	C
15.	TF	72.	MC	79.	MC	86.	MC	93.	MC	181.	Ex		
16.	TF	73.	MC	80.	MC	87.	MC	94.	MC	182.	Ex		
17.	TF	74.	MC	81.	MC	88.	MC	95.	MC	183.	Ex		
33.	TF	75.	MC	82.	MC	89.	MC	96.	MC	184.	Ex		
61.	MC	76.	MC	83.	MC	90.	MC	151.	MC	185.	Ex		
Learning Objective 4													
18.	TF	97.	MC	99.	MC	115.	MC	177.	Ex	187.	Ex		
19.	TF	98.	MC	100.	MC	152.	MC	186.	Ex	209.	C		

Learning Objective 5									
20. TF	102. MC	107. MC	112. MC	172. BE	210. C				
21. TF	103. MC	108. MC	113. MC	185. Ex	215. SA				
22. TF	104. MC	109. MC	114. MC	188. Ex	216. SA				
34. TF	105. MC	110. MC	153. MC	190. Ex					
101. MC	106. MC	111. MC	154. MC	191. Ex					
Learning Objective 6									
23. TF	118. MC	124. MC	132. MC	173. BE	196. Ex				
24. TF	119. MC	125. MC	134. MC	174. BE	197. Ex				
35. TF	120. MC	126. MC	135. MC	192. Ex	198. Ex				
108. MC	121. MC	127. MC	155. MC	193. Ex	199. Ex				
116. MC	122. MC	128. MC	156. MC	194. Ex	211. C				
117. MC	123. MC	131. MC	157. MC	195. Ex	217. SA				
Learning Objective 7									
25. TF	133. MC	139. MC	158. MC	197. Ex	201. Ex	218. SA			
36. TF	136. MC	140. MC	159. MC	198. Ex	202. Ex	220. SA			
129. MC	137. MC	141. MC	175. BE	199. Ex	212. C				
130. MC	138. MC	142. MC	196. Ex	200. Ex	213. C				
Learning Objective 8									
26. TF	28. TF	37. TF	144. MC	219. SA					
27. TF	29. TF	143. MC	203. Ex						
Learning Objective ^{a9}									
^{a30} . TF	^{a146} . MC	^{a160} . MC	163. MC	166. MC					
^{a38} . TF	^{a147} . MC	161. MC	164. MC	^{a176} . BE					
^{a145} . MC	^{a148} . MC	162. MC	165. MC	^{a191} . Ex					
Learning Objective 10									
160. MC	162. MC	164. MC	166. MC						
161. MC	163. MC	165. MC							

Note: TF = True-False BE = Brief Exercise C = Completion
 MC = Multiple Choice Ex = Exercise MA = Matching
 SA = Short-Answer Essay

CHAPTER LEARNING OBJECTIVES

- 1. Explain a current liability, and identify the major types of current liabilities.** A current liability is a debt that a company expects to pay within one year or the operating cycle, whichever is longer. The major types of current liabilities are notes payable, accounts payable, sales taxes payable, unearned revenues, and accrued liabilities such as taxes, salaries and wages, and interest payable.
- 2. Describe the accounting for notes payable.** When a promissory note is interest-bearing, the amount of assets received upon the issuance of the note is generally equal to the face value of the note. Interest expense accrues over the life of the note. At maturity, the amount paid equals the face value of the note plus accrued interest.

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3. **Explain the accounting for other current liabilities.** Companies record sales taxes payable at the time the related sales occur. The company serves as a collection agent for the taxing authority. Sales taxes are not an expense to the company. Companies initially record unearned revenues in an Unearned Revenue account. As a company recognizes revenue, a transfer from unearned revenue to revenue occurs. Companies report the current maturities of long-term debt as a current liability in the balance sheet.
4. **Explain the financial statement presentation and analysis of current liabilities.** Companies should report the nature and amount of each current liability in the balance sheet or in schedules in the notes accompanying the statements. The liquidity of a company may be analyzed by computing working capital and the current ratio.
5. **Describe the accounting and disclosure requirements for contingent liabilities.** If the contingency is probable (likely to occur) and the amount is reasonably estimable, the company should record the liability in the accounts. If the contingency is only reasonably possible (it could happen), then it should be disclosed only in the notes to the financial statements. If the possibility that the contingency will happen is remote (unlikely to occur), it need not be recorded or disclosed.
6. **Compute and record the payroll for a pay period.** The computation of the payroll involves gross earnings, payroll deductions, and net pay. In recording the payroll, companies debit Salaries and Wages Expense for gross earnings, credit individual tax and other liability accounts for payroll deductions, and credit Salaries and Wages Payable for net pay. When the payroll is paid, debit Salaries and Wages Payable and credit Cash.
7. **Describe and record employer payroll taxes.** Employer payroll taxes consist of FICA, federal unemployment taxes, and state unemployment taxes. The taxes are usually accrued at the time the company records the payroll, by debiting Payroll Tax Expense and crediting separate liability accounts for each type of tax.
8. **Discuss the objectives of internal control for payroll.** The objectives of internal control for payroll are (1) to safeguard company assets against unauthorized payments of payrolls, and (2) to ensure the accuracy of the accounting records pertaining to payrolls.
- ^{a9}9. **Identify additional fringe benefits associated with employee compensation.** Additional fringe benefits associated with wages are paid absences (paid vacations, sick pay benefits, and paid holidays), and postretirement benefits (pensions, health care, and life insurance).

TRUE-FALSE STATEMENTS

1. A current liability must be paid out of current earnings.

Ans: F, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

2. Current liabilities are expected to be paid within one year or the operating cycle, whichever is longer.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

3. The relationship between current liabilities and current assets is important in evaluating a company's ability to pay off its long-term debt.

Ans: F, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

4. A company whose current liabilities exceed its current assets may have a liquidity problem.

Ans: T, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

5. Notes payable usually require the borrower to pay interest.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

6. Notes payable are often used instead of accounts payable.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

7. A note payable must always be paid before an account payable.

Ans: F, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

8. A \$30,000, 8%, 9-month note payable requires an interest payment of \$1,800 at maturity.

Ans: T, LO: 2, Bloom: AP, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $\$30,000 \times .08 \times 9/12$

9. Most notes are not interest bearing.

Ans: F, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

10. With an interest-bearing note, the amount of cash received upon issuance of the note generally exceeds the note's face value.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

11. Interest expense on a note payable is only recorded at maturity.

Ans: F, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

12. Interest expense is reported under Other Expenses and Losses in the income statement.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

13. Unearned revenues should be classified as Other Revenues and Gains on the Income Statement.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

14. The higher the sales tax rate, the more profit a retailer can earn.

Ans: F, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

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15. Metropolitan Symphony sells 200 season tickets for \$100,000 that represents a five concert season. The amount of Unearned Ticket Revenue after the second concert is \$40,000.

Ans: F, LO: 3, Bloom: AP, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $(\$100,000 / 5) \times (5 - 2) = \$60,000$

16. During the month, a company sells goods for a total of \$54,000, which includes sales taxes of \$4,000; therefore, the company should recognize \$50,000 in Sales Revenues and \$4,000 in Sales Tax Expense.

Ans: F, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: FSA

17. Current maturities of long-term debt refers to the amount of interest on a note payable that must be paid in the current year.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

18. The current ratio permits analysts to compare the liquidity of different sized companies.

Ans: T, LO: 4, Bloom: AP, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

19. Working capital is current assets divided by current liabilities.

Ans: F, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

20. Contingent liabilities should be recorded in the accounts if there is a remote possibility that the contingency will actually occur.

Ans: F, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

21. A contingent liability is a liability that may occur if some future event takes place.

Ans: T, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

22. In concept, the estimating of Warranty Expense when products are sold under warranty is similar to the estimating of Bad Debt Expense based on credit sales.

Ans: T, LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

23. FICA taxes and federal income taxes are levied on employees' earnings without limit.

Ans: F, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

24. FICA taxes withheld and federal income taxes withheld are mandatory payroll deductions.

Ans: T, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

25. The employer incurs a payroll tax expense equal to the amount withheld from the employees' wages for federal income taxes.

Ans: F, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

26. Internal control over payroll is not necessary because employees will complain if they do not receive the correct amount on their payroll checks.

Ans: F, LO: 8, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Risk Management, AICPA PC: None, IMA: Internal Controls

27. The timekeeping function includes supervisors monitoring hours worked through time cards and time reports.

Ans: T, LO: 8, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Risk Management, AICPA PC: None, IMA: Internal Controls

28. The human resources department documents and authorizes employment of new employees.

Ans: T, LO: 8, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Risk Management, AICPA PC: None, IMA: Internal Controls

29. Payroll activities involve three functions: hiring employees, preparing the payroll, and paying the payroll.

Ans: F, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Risk Management, AICPA PC: None, IMA: Business Economics

^a30. Post-retirement benefits consist of payments by employers to retired employees for health care, life insurance, and pensions.

Ans: T, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

31. A debt that is expected to be paid within one year through the creation of long-term debt is a current liability.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

32. Notes payable usually are issued to meet long-term financing needs.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

33. Current maturities of long-term debt are often identified as long-term debt due within one year on the balance sheet.

Ans: T, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

34. In a given year, total warranty expense is the sum of actual warranty costs incurred on units sold plus the estimated cost of servicing those units in the future.

Ans: T, LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

35. FICA taxes are a voluntary deduction from employee earnings.

Ans: F, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

36. FICA taxes are a deduction from employee earnings and are also imposed upon employers as an expense.

Ans: T, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

37. The objectives of internal accounting control for payrolls are (a) to safeguard company assets from unauthorized payments of payrolls and (b) to assure accuracy and reliability of the accounting records pertaining to payroll.

Ans: T, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Risk Management, AICPA PC: None, IMA: Internal Controls

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- ^a38. When a company gives employees rights to receive compensation for absences and the payment for such absences is probable and the amount can be reasonably estimated, the company should accrue a liability.

Ans: T, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

Answers to True-False Statements

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
1.	F	7.	F	13.	F	19.	F	25.	F	31.	F	37.	T
2.	T	8.	T	14.	F	20.	F	26.	F	32.	F	^a 38.	T
3.	F	9.	F	15.	F	21.	T	27.	T	33.	T		
4.	T	10.	F	16.	F	22.	T	28.	T	34.	T		
5.	T	11.	F	17.	F	23.	F	29.	F	35.	F		
6.	T	12.	T	18.	T	24.	T	^a 30.	T	36.	T		

MULTIPLE CHOICE QUESTIONS

39. All of the following are reported as current liabilities **except**
- accounts payable.
 - bonds payable.
 - notes payable.
 - unearned revenues.

Ans: B, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

40. The relationship between current liabilities and current assets is
- useful in determining income.
 - useful in evaluating a company's liquidity.
 - called the matching principle.
 - useful in determining the amount of a company's long-term debt.

Ans: B, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

41. Most companies pay current liabilities
- out of current assets.
 - by issuing interest-bearing notes payable.
 - by issuing stock.
 - by creating long-term liabilities.

Ans: A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

42. A current liability is a debt that can reasonably be expected to be paid
- within one year or the operating cycle, whichever is longer.
 - between 6 months and 18 months.
 - out of currently recognized revenues.
 - out of cash currently on hand.

Ans: A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

43. Liabilities are classified on the balance sheet as current or
- deferred.
 - unearned.
 - long-term.
 - accrued.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

44. From a liquidity standpoint, it is more desirable for a company to have current
- assets equal current liabilities.
 - liabilities exceed current assets.
 - assets exceed current liabilities.
 - liabilities exceed long-term liabilities.

Ans: C, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

45. The relationship of current assets to current liabilities is used in evaluating a company's
- operating cycle.
 - revenue-producing ability.
 - short-term debt paying ability.
 - long-range solvency.

Ans: C, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

46. Which of the following is usually **not** an accrued liability?
- Interest payable
 - Wages payable
 - Taxes payable
 - Notes payable

Ans: D, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

47. In most companies, current liabilities are paid within
- one year through the creation of other current liabilities.
 - the operating cycle through the creation of other current liabilities.
 - one year or the operating cycle out of current assets.
 - the operating cycle out of current assets.

Ans: C, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

48. The entry to record the issuance of an interest-bearing note credits Notes Payable for the note's
- maturity value.
 - market value.
 - face value.
 - cash realizable value.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

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49. With an interest-bearing note, the amount of assets received upon issuance of the note is generally
- equal to the note's face value.
 - greater than the note's face value.
 - less than the note's face value.
 - equal to the note's maturity value.

Ans: A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

50. A note payable is in the form of
- a contingency that is reasonably likely to occur.
 - a written promissory note.
 - an oral agreement.
 - a standing agreement.

Ans: B, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

51. The entry to record the proceeds upon issuing an interest-bearing note is
- Interest Expense
Cash
 Notes Payable
 - Cash
 Notes Payable
 - Notes Payable
 Cash
 - Cash
 Notes Payable
 Interest Payable

Ans: B, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

52. Watunga County Bank agrees to lend Hoffman Granite Company \$600,000 on January 1. Hoffman Granite Company signs a \$600,000, 8%, 9-month note. The entry made by Hoffman Granite on January 1 to record the proceeds and issuance of the note is
- | | | | |
|----|------------------------|---------|---------|
| a. | Interest Expense | 36,000 | |
| | Cash | 564,000 | |
| | Notes Payable | | 600,000 |
| b. | Cash | 600,000 | |
| | Notes Payable | | 600,000 |
| c. | Cash | 600,000 | |
| | Interest Expense | 36,000 | |
| | Notes Payable | | 636,000 |
| d. | Cash | 600,000 | |
| | Interest Expense | 36,000 | |
| | Notes Payable | | 600,000 |
| | Interest Payable | | 36,000 |

Ans: B, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

53. Watunga County Bank agrees to lend Hoffman Granite Company \$600,000 on January 1. Hoffman Granite Company signs a \$600,000, 8%, 9-month note. What is the adjusting entry required if Hoffman Granite Company prepares financial statements on June 30?

a. Interest Expense.....	24,000	
Interest Payable.....		24,000
b. Interest Expense.....	24,000	
Cash.....		24,000
c. Interest Payable.....	24,000	
Cash.....		24,000
d. Interest Payable.....	24,000	
Interest Expense.....		24,000

Ans: A, LO: 2, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $\$600,000 \times .08 \times 6/12 = \$24,000$

54. Watunga County Bank agrees to lend Hoffman Granite Company \$600,000 on January 1. Hoffman Granite Company signs a \$600,000, 8%, 9-month note. What entry will Hoffman Granite make to pay off the note and interest at maturity assuming that interest has been accrued to September 30?

a. Notes Payable.....	636,000	
Cash.....		636,000
b. Notes Payable.....	600,000	
Interest Payable.....	36,000	
Cash.....		636,000
c. Interest Expense.....	36,000	
Notes Payable.....	600,000	
Cash.....		636,000
d. Interest Payable.....	24,000	
Notes Payable.....	600,000	
Interest Expense.....	12,000	
Cash.....		636,000

Ans: B, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $\$600,000 \times .08 \times 9/12 = \$36,000$;

55. As interest is recorded on an interest-bearing note, the Interest Expense account is

- a. increased; the Notes Payable account is increased.
- b. increased; the Notes Payable account is decreased.
- c. increased; the Interest Payable account is increased.
- d. decreased; the Interest Payable account is increased.

Ans: C, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

56. When an interest-bearing note matures, the balance in the Notes Payable account is

- a. less than the total amount repaid by the borrower.
- b. the difference between the maturity value of the note and the face value of the note.
- c. equal to the total amount repaid by the borrower.
- d. greater than the total amount repaid by the borrower.

Ans: A, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

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57. On October 1, Eli's Carpet Service borrows \$125,000 from First District Bank on a 3-month, \$125,000, 8% note. What entry must Eli's Carpet Service make on December 31 before financial statements are prepared?

a.	Interest Payable	2,500	
	Interest Expense		2,500
b.	Interest Expense	10,000	
	Interest Payable		10,000
c.	Interest Expense	2,500	
	Interest Payable		2,500
d.	Interest Expense	2,500	
	Notes Payable		2,500

Ans: C, LO: 2, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $\$125,000 \times .08 \times 3/12 = \$2,500$

58. On October 1, Eli's Carpet Service borrows \$125,000 from First National Bank on a 3-month, \$125,000, 8% note. The entry by Eli's Carpet Service to record payment of the note and accrued interest on January 1 is

a.	Notes Payable.....	127,500	
	Cash.....		127,500
b.	Notes Payable.....	125,000	
	Interest Payable	2,500	
	Cash.....		127,500
c.	Notes Payable.....	125,000	
	Interest Payable	10,000	
	Cash.....		135,000
d.	Notes Payable.....	125,000	
	Interest Expense	2,500	
	Cash.....		127,500

Ans: B, LO: 2, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $\$125,000 + (\$125,000 \times .08 \times 3/12) = \$127,500$

59. Interest expense on an interest-bearing note is
- always equal to zero.
 - accrued over the life of the note.
 - only recorded at the time the note is issued.
 - only recorded at maturity when the note is paid.

Ans: B, LO: 2, Bloom: AP, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

60. The entry to record the payment of an interest-bearing note at maturity after all interest expense has been recognized is
- a. Notes Payable
Interest Payable
Cash
 - b. Notes Payable
Interest Expense
Cash
 - c. Notes Payable
Cash
 - d. Notes Payable
Cash
Interest Payable

Ans: A, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

61. Sales taxes collected by a retailer are recorded by
- a. crediting Sales Tax Revenue.
 - b. debiting Sales Tax Expense.
 - c. crediting Sales Taxes Payable.
 - d. debiting Sales Taxes Payable.

Ans: C, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

62. Unearned Rent Revenue is
- a. a contra account to Rent Revenue.
 - b. a revenue account.
 - c. reported as a current liability.
 - d. debited when rent is received in advance.

Ans: C, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

63. Sales taxes collected by the retailer are recorded as a(n)
- a. revenue.
 - b. liability.
 - c. expense.
 - d. asset.

Ans: B, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

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64. On September 1, Bud's Painting Service borrows \$150,000 from Highlands Bank on a 4-month, \$150,000, 6% note. What entry must Bud's Painting Service make on December 31 before financial statements are prepared?

a. Interest Payable	3,000	
Interest Expense		3,000
b. Interest Expense	9,000	
Interest Payable		9,000
c. Interest Expense	3,000	
Interest Payable		3,000
d. Interest Expense	3,000	
Notes Payable		3,000

Ans: C, LO: 2, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $\$150,000 \times .06 \times 4/12 = \$3,000$

65. On September 1, Eli's Painting Service borrows \$150,000 from National Bank on a 4-month, \$150,000, 6% note. The entry by Eli's Painting Service to record payment of the note and accrued interest on January 1 is

a. Notes Payable.....	153,000	
Cash.....		153,000
b. Notes Payable.....	150,000	
Interest Payable	3,000	
Cash.....		153,000
c. Notes Payable.....	150,000	
Interest Payable	9,000	
Cash.....		159,000
d. Notes Payable.....	150,000	
Interest Expense	3,000	
Cash.....		153,000

Ans: B, LO: 2, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $(\$150,000 \times .06 \times 4/12) + \$150,000 = \$153,000$

66. The interest charged on a \$400,000 note payable, at the rate of 8%, on a 90-day note would be

- a. \$32,000.
- b. \$17,776.
- c. \$8,000.
- d. \$2,666.

Ans: C, LO: 2, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $\$400,000 \times .08 \times 90/360 = \$8,000$

67. The interest charged on a \$50,000 note payable, at the rate of 6%, on a 60-day note would be

- a. \$3,000.
- b. \$1,667.
- c. \$750.
- d. \$500.

Ans: D, LO: 2, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $\$50,000 \times .06 \times 60/360 = \500

68. The interest charged on a \$225,000 note payable, at the rate of 8%, on a 3-month note would be
- \$18,000.
 - \$9,000.
 - \$4,500.
 - \$3,000.

Ans: C, LO: 2, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $\$225,000 \times .08 \times 3/12 = \$4,500$

69. The interest charged on a \$100,000 note payable, at the rate of 6%, on a 2-month note would be
- \$6,000.
 - \$3,000.
 - \$1,500.
 - \$1,000.

Ans: D, LO: 2, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $\$100,000 \times .06 \times 2/12 = \$1,000$

70. On October 1, 2014, Dakota Company issued an \$800,000, 10%, nine-month interest-bearing note. If the Dakota Company is preparing financial statements at December 31, 2014, the adjusting entry for accrued interest will include a:
- credit to Notes Payable of \$20,000.
 - debit to Interest Expense of \$20,000
 - credit to Interest Payable of \$40,000.
 - debit to Interest Expense of \$30,000.

Ans: B, LO: 2, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $\$800,000 \times .10 \times 3/12 = \$20,000$

71. On October 1, 2014, Pennington Company issued an \$800,000, 10%, nine-month interest-bearing note. Assuming interest was accrued in June 30, 2015, the entry to record the payment of the note on July 1, 2015, will include a:
- debit to Interest Expense of \$20,000.
 - credit to Cash of \$800,000
 - debit to Interest Payable of \$60,000.
 - debit to Notes Payable of \$860,000.

Ans: C, LO: 2, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $\$800,000 \times .10 \times 9/12 = \$60,000$

72. Koppernaes Company has total proceeds (before segregation of sales taxes) from sales of \$9,540. If the sales tax is 6%, the amount to be credited to the account Sales Revenue is:
- \$9,540.
 - \$8,968.
 - \$10,112.
 - \$9,000.

Ans: D, LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $\$9,540 / (1 + .06) = \$9,000$

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73. Mackenzie Insurance Company collected a premium of \$15,000 for a 1-year insurance policy on May 1. What amount should Mackenzie report as a current liability for Unearned Insurance Revenue at December 31?
- \$0.
 - \$5,000.
 - \$10,000.
 - \$15,000.

Ans: B, LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $(\$15,000/12) \times 4 = \$5,000$

74. A company receives \$396, of which \$36 is for sales tax. The journal entry to record the sale would include a
- debit to Sales Tax Expense for \$36.
 - credit to Sales Taxes Payable for \$36.
 - debit to Sales Revenue for \$396.
 - debit to Cash for \$360.

Ans: B, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

75. A company receives \$696, of which \$56 is for sales tax. The journal entry to record the sale would include a
- debit to Sales Tax Expense for \$56.
 - debit to Sales Taxes Payable for \$56.
 - debit to Sales Revenue for \$696.
 - debit to Cash for \$696.

Ans: D, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

76. A retail store credited the Sales Revenue account for the sales price and the amount of sales tax on sales. If the sales tax rate is 5% and the balance in the Sales Revenue account amounted to \$262,500, what is the amount of the sales taxes owed to the taxing agency?
- \$250,000
 - \$262,500
 - \$13,125
 - \$12,500

Ans: D, LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $\$262,500 - (\$262,500 / (1 + .05)) = \$12,500$

77. On January 1, 2014, Mazzeo Company, a calendar-year company, issued \$1,600,000 of notes payable, of which \$400,000 is due on January 1 for each of the next four years. The proper balance sheet presentation on December 31, 2014, is
- Current Liabilities, \$1,600,000.
 - Long-term Debt, \$1,600,000.
 - Current Liabilities, \$800,000; Long-term Debt, \$800,000.
 - Current Liabilities, \$400,000; Long-term Debt, \$1,200,000.

Ans: D, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$1,600,000 - \$400,000 = \$1,200,000$

78. On January 1, 2014, Key Company, a calendar-year company, issued \$250,000 of notes payable, of which \$62,500 is due on January 1 for each of the next four years. The proper balance sheet presentation on December 31, 2014, is
- Current Liabilities, \$250,000.
 - Long-term Debt , \$250,000.
 - Current Liabilities, \$62,500; Long-term Debt, \$187,500.
 - Current Liabilities, \$187,500; Long-term Debt, \$62,500.

Ans: C, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: \$250,000 – \$62,500 = \$187,500

79. A cash register tape shows cash sales of \$3,000 and sales taxes of \$240. The journal entry to record this information is

a. Cash	3,240	
Sales Revenue.....		3,240
b. Cash	3,240	
Sales Taxes Payable		240
Sales Revenue.....		3,000
c. Cash	3,000	
Sales Tax Expense.....	240	
Sales Revenue.....		3,240
d. Cash	3,240	
Sales Revenue.....		3,000
Sales Tax Revenue.....		240

Ans: B, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

80. Maple Street Bookstore has collected \$1,500 in sales taxes during April. If sales taxes must be remitted to the state government monthly, what entry will Maple Street Bookstore make to show the April remittance?

a. Sales Taxes Payable	1,500	
Cash		1,500
b. Sales Tax Expense.....	1,500	
Cash		1,500
c. Sales Tax Expense.....	1,500	
Sales Taxes Payable		1,500
d. No entry required.		

Ans: A, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

81. Rhode Company does **not** ring up sales taxes separately on the cash register. Total receipts for October amounted to \$81,900. If the sales tax rate is 5%, what amount must be remitted to the state for October's sales taxes?

- \$3,900
- \$4,095
- \$195
- It cannot be determined.

Ans: A, LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: \$81,900 – (\$81,900/1.05) = \$3,900

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82. Sly's Salon has total receipts for the month of \$9,275 including sales taxes. If the sales tax rate is 6%, what are Sly's sales for the month?
- \$8,719
 - \$9,832
 - \$8,750
 - It cannot be determined.

Ans: C, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $\$9,275 / 1.06 = \$8,750$

83. The amount of sales tax collected by a retail store when making sales is
- a miscellaneous revenue for the store.
 - a current liability.
 - not recorded because it is a tax paid by the customer.
 - recorded as an operating expense.

Ans: B, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

84. A retail store credited the Sales Revenue account for the sales price and the amount of sales tax on sales. If the sales tax rate is 5% and the balance in the Sales Revenue account amounted to \$136,500, what is the amount of the sales taxes owed to the taxing agency?
- \$130,000
 - \$136,500
 - \$6,825
 - \$6,500

Ans: D, LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$136,500 - (\$136,500/1.05) = \$6,500$

85. Advances from customers are classified as a(n)
- revenue.
 - expense.
 - current asset.
 - current liability.

Ans: D, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

86. The current portion of long-term debt should
- be paid immediately.
 - be reclassified as a current liability.
 - be classified as a long-term liability.
 - not be separated from the long-term portion of debt.

Ans: B, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

87. Sales taxes collected by a retailer are expenses
- of the retailer.
 - of the customers.
 - of the government.
 - that are not recognized by the retailer until they are submitted to the government.

Ans: B, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

88. Sales taxes collected by a retailer are reported as
- a. contingent liabilities.
 - b. revenues.
 - c. expenses.
 - d. current liabilities.

Ans: D, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

89. Mast General Store has total receipts for the month of \$45,990 including sales taxes. If the sales tax rate is 5%, what are Mast's sales for the month?
- a. \$43,691
 - b. \$43,800
 - c. \$48,290
 - d. It cannot be determined.

Ans: B, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $\$45,990 / (1 + .05) = \$43,800$

90. A cash register tape shows cash sales of \$5,000 and sales taxes of \$300. The journal entry to record this information is
- a.

Cash	5,300	
Sales Revenue		5,300
 - b.

Cash	5,300	
Sales Tax Revenue		300
Sales Revenue		5,000
 - c.

Cash	5,000	
Sales Tax Expense	300	
Sales Revenue		5,300
 - d.

Cash	5,300	
Sales Revenue		5,000
Sales Taxes Payable		300

Ans: D, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

91. Carver's Pharmacy has collected \$900 in sales taxes during March. If sales taxes must be remitted to the state government monthly, what entry will Carver's Pharmacy make to show the March remittance?
- a.

Sales Tax Expense	900	
Cash		900
 - b.

Sales Taxes Payable	900	
Cash		900
 - c.

Sales Tax Expense	900	
Sales Taxes Payable		900
 - d. No entry required.

Ans: B, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

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92. Dailey Company does **not** ring up sales taxes separately on the cash register. Total receipts for February amounted to \$48,150. If the sales tax rate is 7%, what amount must be remitted to the state for February's sales taxes?
- \$3,371
 - \$3,150
 - \$4,815
 - It cannot be determined.

Ans: B, LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $\$48,150 - (\$48,150/1.07) = \$3,150$

93. Any balance in an unearned revenue account is reported as a(n)
- current liability.
 - long-term debt.
 - revenue.
 - unearned liability.

Ans: A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

94. Southern Foodie Company typically sells subscriptions on an annual basis, and publishes six times a year. The magazine sells 80,000 subscriptions in January at \$30 each. What entry is made in January to record the sale of the subscriptions?

a. Subscriptions Receivable	2,400,000	
Subscription Revenue		2,400,000
b. Cash	2,400,000	
Unearned Subscription Revenue		2,400,000
c. Subscriptions Receivable	400,000	
Unearned Subscription Revenue		400,000
d. Prepaid Subscriptions	2,400,000	
Cash		2,400,000

Ans: B, LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

95. Lulu Luxuries Company issued a four-year interest-bearing note payable for \$200,000 on January 1, 2013. Each January the company is required to pay \$50,000 on the note. How will this note be reported on the December 31, 2014 balance sheet?
- Long-term debt, \$200,000.
 - Long-term debt, \$150,000.
 - Long-term debt, \$100,000; Long-term debt due within one year, \$50,000.
 - Long-term debt, \$150,000; Long-term debt due within one year, \$50,000.

Ans: C, LO: 3, Bloom: C, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$200,000 - \$50,000 - \$50,000 = \$100,000$

96. Vick. Vickers has a large consulting practice. New clients are required to pay one-half of the consulting fees up front. The balance is paid at the conclusion of the consultation. How does Vickers account for the cash received at the end of the engagement?
- Cash
Unearned Service Revenue
 - Cash
Service Revenue
 - Prepaid Service Fees
Service Revenue
 - No entry is required when the engagement is concluded.

Ans: B, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

97. Which one of the following is shown first under current liabilities by many companies as a matter of custom?
- Accrued expenses
 - Current maturities of long-term debt
 - Sales taxes payable
 - Notes payable

Ans: D, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

98. Working capital is
- current assets plus current liabilities.
 - current assets minus current liabilities.
 - current assets divided by current liabilities.
 - current assets multiplied by current liabilities.

Ans: B, LO: 4, Bloom: AP, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

99. The current ratio is
- current assets plus current liabilities.
 - current assets minus current liabilities.
 - current assets divided by current liabilities.
 - current assets multiplied by current liabilities.

Ans: C, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

100. Monkee's Company has current assets of \$45,000, current liabilities of \$50,000, long-term assets of \$90,000 and long-term liabilities of \$40,000. Monkee's Company's working capital and its current ratio are:
- \$45,000 and .90:1.
 - \$5,000 and 1.50:1.
 - \$5,000 and .90:1.
 - \$5,000 and .90:1.

Ans: D, LO: 4, Bloom: AP, Difficulty: Hard, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Quantitative Methods

Solution: $\$45,000 - \$50,000 = -\$5,000$; $\$45,000 / \$50,000 = .90 : 1$

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101. Landfall Navigation began operations in 2014 and provides a one year warranty on the products it sells. They estimate that 20,000 of the 400,000 units sold in 2014 will be returned for repairs and that these repairs will cost \$8 per unit. The cost of repairing 16,000 units presented for service in 2014 was \$128,000. Landfall should report
- warranty expense of \$32,000 for 2014.
 - warranty expense of \$160,000 for 2014.
 - warranty liability of \$160,000 on December 31, 2014.
 - no warranty obligation on December 31, 2014, since this is only a contingent liability.

Ans: B, LO: 5, Bloom: C, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $(\$20,000 - \$16,000) \times \$8 = \$32,000$

102. Autotether, Inc. sells 1,200 units of a product that has a one-year warranty on parts. The average cost of honoring one warranty contract is \$60. During the year 60 contracts are honored at a cost of \$3,600. It is estimated that 120 contracts will be honored in the following year. The adjusting entry at the end of the current year will include a
- credit to Warranty Liability for \$7,200.
 - credit to Warranty Liability for \$10,800.
 - debit to Warranty Expense for \$3,600.
 - debit to Warranty Expense for \$10,800.

Ans: A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $120 \times \$60 = \$7,200$

103. A contingent liability need only be disclosed in the financial statement notes when the likelihood of the contingency is
- reasonably possible.
 - probable.
 - remote.
 - unlikely.

Ans: A, LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

104. If a contingent liability is reasonably estimable and it is reasonably possible that the contingency will occur, the contingent liability
- should be recorded in the accounts.
 - should be disclosed in the notes accompanying the financial statements.
 - should not be recorded or disclosed in the notes until the contingency actually happens.
 - must be paid for the amount estimated.

Ans: B, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

105. The accounting for warranty cost is based on the expense recognition principle, which requires that the estimated cost of honoring warranty contracts should be recognized as an expense
- when the product is brought in for repairs.
 - in the period in which the product was sold.
 - at the end of the warranty period.
 - only if the repairs are expected to be made within one year.

Ans: B, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

106. If a liability is dependent on a future event, it is called a
- potential liability.
 - hypothetical liability.
 - probabilistic liability.
 - contingent liability.

Ans: D, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

107. Current maturities of long-term debt
- require an adjusting entry.
 - are optionally reported on the balance sheet.
 - can be properly classified during balance sheet preparation, with no adjusting entry required.
 - are not considered to be current liabilities.

Ans: C, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

108. A contingency that is remote
- should be disclosed in the financial statements.
 - must be accrued as a loss.
 - does not need to be disclosed.
 - is recorded as a contingent liability.

Ans: C, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

109. The accounting for warranty costs is based on the
- going concern principle.
 - expense recognition principle.
 - conservatism principle.
 - historical cost principle.

Ans: B, LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

110. Warranty expenses are reported on the income statement as
- administrative expenses.
 - part of cost of goods sold.
 - contra-revenues.
 - selling expenses.

Ans: D, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

111. Lulzbot.com sells 6,000 units of its product for \$500 each. The selling price includes a one-year warranty on parts. It is expected that 3% of the units will be defective and that repair costs will average \$50 per unit. In the year of sale, warranty contracts are honored on 120 units for a total cost of \$6,000. What amount should Lulzbot.com accrue on December 31 for estimated warranty costs?
- \$9,000
 - \$6,000
 - \$3,000
 - \$45,000

Ans: C, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $[(6,000 \times .03) - 120] \times \$50 = \$3,000$

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112. Lulzbot.com sells 6,000 units of its product for \$500 each during the year ending December 31, 2014. The selling price includes a one-year warranty on parts. It is expected that 3% of the units will be defective and that repair costs will average \$50 per unit. In the year of sale, warranty contracts are honored on 120 units for a total cost of \$6,000. What amount will be reported on Lulzbot.com's balance sheet as Warranty Liability on December 31, 2014?
- \$6,000
 - \$9,000
 - \$3,000
 - It cannot be determined.

Ans: C, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $[(6,000 \times .03) - 120] \times \$50 = \$3,000$

113. Which of the following items would **not** be identified if a contingent liability were disclosed in a financial statement footnote?
- The nature of the item
 - The expected outcome of the future event
 - A numerical probability of the expected loss
 - The amount of the contingency, if known

Ans: C, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

114. Disclosure of a contingent liability is usually made
- parenthetically, in the body of the balance sheet.
 - parenthetically, in the body of the income statement.
 - in a note to the financial statements.
 - in the management discussion section of the financial statement.

Ans: C, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

115. Current liabilities generally appear
- after long-term debt on the balance sheet.
 - in decreasing order of magnitude on the balance sheet.
 - in order of maturity on the balance sheet.
 - in increasing order of magnitude on the balance sheet.

Ans: B, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

116. Which of the following employees would likely receive a salary instead of wages?
- Store clerk
 - Factory employee
 - Sales manager
 - Manual laborer

Ans: C, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: None, AICPA PC: None, IMA: Business Economics

117. The total compensation earned by an employee is called
- take-home pay.
 - net pay.
 - net earnings.
 - gross earnings.

Ans: D, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

118. Which one of the following payroll taxes does **not** result in a payroll tax expense for the employer?
- FICA tax
 - Federal income tax
 - Federal unemployment tax
 - State unemployment tax

Ans: B, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

119. Sarah Jones's regular rate of pay is \$30 per hour with one and one-half times her regular rate for any hours which exceed 40 hours per week. She worked 48 hours last week. Therefore, her gross wages were
- \$1,440.
 - \$1,200.
 - \$1,560.
 - \$2,160.

Ans: C, LO: 6, Bloom: K, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $(40 \times \$30) + (8 \times \$30 \times 1.5) = \$1,560$

120. Assuming a FICA tax rate of 7.65% on the first \$110,100 in wages, and a federal income tax rate of 20% on all wages, what would be an employee's net pay for the year if he earned \$180,000 for the year?
- \$135,577
 - \$126,141
 - \$144,000
 - \$134,564

Ans: D, LO: 6, Bloom: K, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $(\$110,100 \times .0765) + (\$69,900 \times .0145) + (\$180,000 \times .20) = \$45,436$; $\$180,000 - \$45,436 = \$134,564$

121. Most companies involved in interstate commerce are required to compute overtime at
- the worker's regular hourly wage.
 - 1.25 times the worker's regular hourly wage.
 - 1.5 times the worker's regular hourly wage.
 - 2.5 times the worker's regular hourly wage.

Ans: C, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

122. Jason Gomi has worked 44 hours this week. He worked in excess of 8 hours each day. His regular hourly wage is \$9 per hour. What are Jason's gross wages for the week? (The company Jan works for is in compliance with the Fair Labor Standards Act.)
- \$396
 - \$414
 - \$594
 - \$432

Ans: B, LO: 6, Bloom: K, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $(40 \times \$9) + (4 \times \$9 \times 1.5) = \$414$

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123. FICA taxes do **not** provide workers with
- life insurance.
 - supplemental retirement.
 - employment disability.
 - medical benefits.

Ans: A, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: None, AICPA PC: None, IMA: None

124. Employee payroll deductions include each of the following **except**
- federal unemployment taxes.
 - federal income taxes.
 - FICA taxes.
 - insurance, pension plans, and union dues.

Ans: A, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

125. The journal entry to record the payroll for a period will include a credit to Salaries and Wages Payable for the gross
- amount less all payroll deductions.
 - amount of all paychecks issued.
 - pay less taxes payable.
 - pay less voluntary deductions.

Ans: A, LO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

126. The amount of income taxes withheld from employees is dependent on each of the following **except** the
- employee's gross earnings.
 - employee's net pay.
 - length of the pay period.
 - number of allowances claimed by the employee.

Ans: B, LO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: None, AICPA PC: None, IMA: Business Economics

127. The following totals for the month of April were taken from the payroll register of Asplend Company.

Salaries and wages	\$72,000
FICA taxes withheld	5,508
Income taxes withheld	15,000
Medical insurance deductions	2,700
Federal unemployment taxes	192
State unemployment taxes	1,296

The journal entry to record the monthly payroll on April 30 would include a

- debit to Salaries and Wages Expense for \$72,000.
- credit to Salaries and Wages Payable for \$72,000.
- debit to Salaries and Wages Payable for \$72,000.
- debit to Salaries and Wages Expense for \$51,000.

Ans: A, LO: 6, Bloom: C, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

128. The following totals for the month of April were taken from the payroll register of Asplend Company.

Salaries and wages	\$72,000
FICA taxes withheld	5,508
Income taxes withheld	15,000
Medical insurance deductions	2,700
Federal unemployment taxes	192
State unemployment taxes	1,296

The entry to record the payment of net payroll would include a

- a. debit to Salaries and Wages Payable for \$47,304.
- b. debit to Salaries and Wages Payable for \$48,792.
- c. debit to Salaries and Wages Payable for \$43,284.
- d. credit to Cash for \$54,300.

Ans: B, LO: 6, Bloom: C, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $\$72,000 - \$5,508 - \$15,000 - \$2,700 = \$48,792$

129. The following totals for the month of April were taken from the payroll register of Asplend Company.

Salaries and wages	\$72,000
FICA taxes withheld	5,508
Income taxes withheld	15,000
Medical insurance deductions	2,700
Federal unemployment taxes	192
State unemployment taxes	1,296

The entry to record accrual of Asplend Company's payroll taxes would include a

- a. debit to Payroll Tax Expense for \$1,488.
- b. debit to Payroll Tax Expense for \$6,996.
- c. credit to FICA Taxes Payable for \$11,016.
- d. credit to Payroll Tax Expense for \$1,488.

Ans: B, LO: 7, Bloom: C, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $\$5,508 + \$192 + \$1,296 = \$6,996$

130. The following totals for the month of April were taken from the payroll register of Asplend Company.

Salaries and wages	\$72,000
FICA taxes withheld	5,508
Income taxes withheld	15,000
Medical insurance deductions	2,700
Federal unemployment taxes	192
State unemployment taxes	1,296

The entry to record the accrual of federal unemployment taxes would include a

- a. credit to Federal Unemployment Taxes Payable for \$192.
- b. debit to Federal Unemployment Taxes Expense for \$192.
- c. credit to Payroll Tax Expense for \$192.
- d. debit to Federal Unemployment Taxes Payable for \$192

Ans: A, LO: 7, Bloom: C, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

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131. Smita Quinn, earns \$30 per hour for a 40 hour work week and \$45 per hour for overtime work. If Smita works 44 hours, her gross earnings are:
- \$1,320.
 - \$1,380.
 - \$1,568.
 - \$1,980.

Ans: B, LO: 6, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $(40 \times \$30) + (4 \times \$45) = \$1,380$

132. Kenny Corsig, an employee of Fenwick Company, has gross earnings for the month of October of \$3,000. FICA taxes are 7.65% of gross earnings, federal income taxes amount to \$476 for the month, state income taxes are 2% of gross earnings, and authorizes voluntary deductions of \$8 per month to the United Way. What is the net pay for Kenny?
- \$2,295
 - \$2,227
 - \$2,235
 - \$2,287

Ans: B, LO: 6, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $(\$3,000)(1 - .0765 - .02) - \$476 - \$8 = \$2,227$

133. FICA Taxes Payable was credited for \$27,000 in the entry when Highlands Company recorded payroll. When Highlands Company records employer's payroll taxes, FICA Taxes Payable should be credited for:
- \$0.
 - \$27,000.
 - \$54,000.
 - some other amount.

Ans: B, LO: 7, Bloom: C, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

134. The following totals for the month of June were taken from the payroll register of Parks Company.

Salaries and wages	\$80,000
FICA taxes withheld	6,132
Income taxes withheld	17,600
Medical insurance deductions	3,200
Federal unemployment taxes	640
State unemployment taxes	4,000

The journal entry to record the monthly payroll on June 30 would include a

- debit to Salaries and Wages Expense for \$80,000.
- credit to Salaries and Wages Payable for \$80,000.
- debit to Salaries and Wages Payable for \$80,000.
- debit to Salaries and Wages Expense for \$53,068

Ans: A, LO: 6, Bloom: C, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

135. The following totals for the month of June were taken from the payroll register of Parks Company.

Salaries and wages	\$80,000
FICA taxes withheld	6,132
Income taxes withheld	17,600
Medical insurance deductions	3,200
Federal unemployment taxes	640
State unemployment taxes	4,000

The entry to record the payment of net payroll would include a

- debit to Salaries and Wages Payable for \$48,428.
- debit to Salaries and Wages Payable for \$53,068.
- debit to Salaries and Wages Payable for \$49,068.
- credit to Cash for \$49,068.

Ans: B, LO: 6, Bloom: C, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $\$80,000 - \$6,132 - \$17,600 - \$3,200 = \$53,068$

136. The following totals for the month of June were taken from the payroll register of Parks Company.

Salaries and wages	\$80,000
FICA taxes withheld	6,132
Income taxes withheld	17,600
Medical insurance deductions	3,200
Federal unemployment taxes	640
State unemployment taxes	4,000

The entry to record accrual of Parks's Company's payroll taxes would include a

- debit to Payroll Tax Expense for \$10,772
- credit to Payroll Tax Expense for \$10,772
- credit to FICA Taxes Payable for \$4,640.
- credit to Payroll Tax Expense for \$4,640.

Ans: A, LO: 7, Bloom: C, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $\$6,132 + \$4,000 + \$640 = \$10,772$

137. The following totals for the month of June were taken from the payroll register of Ford Company.

Salaries and wages	\$80,000
FICA taxes withheld	6,132
Income taxes withheld	17,600
Medical insurance deductions	3,200
Federal unemployment taxes	640
State unemployment taxes	4,000

The entry to record the accrual of federal unemployment taxes would include a

- credit to Federal Unemployment Taxes Payable for \$640.
- credit to Federal Unemployment Taxes Expense for \$640.
- credit to Payroll Tax Expense for \$640.
- debit to Federal Unemployment Taxes Payable for \$640.

Ans: A, LO: 7, Bloom: C, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

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138. Which one of the following payroll taxes is **not** withheld from an employee's wages because it is not levied on the employee?
- Federal income tax
 - Federal unemployment tax
 - State income tax
 - FICA tax

Ans: B, LO: 7, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

139. By January 31 following the end of a calendar year, an employer is required to provide each employee with a(n)
- state unemployment tax form.
 - federal unemployment tax form 940.
 - wage and tax statement form W-2.
 - employee's withholding allowance certificate form W-4.

Ans: C, LO: 7, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

140. Which of the following payroll taxes are usually filed and remitted annually?
- Federal unemployment taxes
 - FICA taxes
 - State unemployment taxes
 - Federal and state unemployment taxes

Ans: A, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

141. The tax that is paid equally by the employer and employee is the
- federal income tax.
 - federal unemployment tax.
 - state unemployment tax.
 - FICA tax.

Ans: D, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

142. The effective federal unemployment tax rate is usually
- 6.2%.
 - 0.8%.
 - 5.4%.
 - 8.0%.

Ans: B, LO: 7, Bloom: AP, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

143. The treasurer's department is responsible for
- approving the payroll.
 - maintaining payroll records.
 - preparing payroll tax returns.
 - signing payroll checks.

Ans: D, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: None, AICPA PC: None, IMA: Business Economics

144. The payroll is paid by the
- personnel department.
 - payroll department.
 - cashier.
 - treasurer's department.

Ans: D, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: None, AICPA PC: None, IMA: Business Economics

- ^a145. Post-retirement benefits consist of payments by employers to retired employees for
- health care and life insurance only.
 - health care and pensions only.
 - life insurance and pensions only.
 - health care, life insurance, and pensions.

Ans: D, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: None, AICPA PC: None, IMA: Business Economics

- ^a146. The paid absence that is most commonly accrued is
- voting leave.
 - vacation time.
 - maternity leave.
 - disability leave.

Ans: B, LO: 9, Bloom: AP, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

- ^a147. Lake Norman Company has twenty employees who each earn \$120 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 at the end of the month is
- \$240.
 - \$2,400.
 - \$3,600.
 - \$360.

Ans: C, LO: 9, Bloom: C, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $20 \times \$120 \times 1.5 = \$3,600$

- ^a148. An employer's estimated cost for post-retirement benefits for its employees should be
- recognized as an expense when paid.
 - recognized as an expense during the employees' work years.
 - recognized as an expense during the employees' retirement years.
 - charged to the goodwill account because providing employees with benefits generates employee goodwill.

Ans: B, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

149. A current liability is a debt the company reasonably expects to pay from existing current assets within
- one year.
 - the operating cycle.
 - one year or the operating cycle, whichever is longer.
 - one year or the operating cycle, whichever is shorter.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

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150. Which of the following statements concerning current liabilities is **incorrect**?
- Current liabilities include unearned revenues.
 - A company that has more current liabilities than current assets is usually the subject of some concern.
 - Current liabilities include prepaid expenses.
 - A current liability is a debt that can reasonably be expected to be paid out of existing current assets or result in the creation of other current liabilities.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

151. On August 1, 2014, a company borrowed cash and signed a one-year interest-bearing note on which both the face value and interest are payable on August 1, 2015. How will the note payable and the related interest be classified in the December 31, 2014, balance sheet?

<u>Note Payable</u>	<u>Interest Payable</u>
a. Current liability	Noncurrent liability
b. Noncurrent liability	Current liability
c. Current liability	Current liability
d. Noncurrent liability	Not shown

Ans: C, LO: 2,3, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

152. Companies report current liabilities on the balance sheet in
- alphabetical order.
 - order of maturity.
 - random order.
 - order of magnitude.

Ans: D, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

153. A contingency need **not** be recorded nor disclosed when
- it is probable the contingency will happen and the amount can be reasonably estimated.
 - it is probable the contingency will happen but the amount cannot be reasonably estimated.
 - it is reasonably possible the contingency will happen and the amount can be reasonably estimated.
 - the possibility of the contingency happening is remote.

Ans: D, LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

154. A contingent liability is recorded when the likelihood of the contingency is
- remote.
 - reasonably possible.
 - probable.
 - nil or zero.

Ans: C, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

155. Mary Ehrat, an employee of Eddington Company, has gross earnings for the month of October of \$8,000. FICA taxes are 7.65% of gross earnings, federal income taxes amount to \$1,270 for the month, state income taxes are 2% of gross earnings, and Mary authorizes voluntary deductions of \$20 per month to the United Fund. What is the net pay for Mary Ehrat?
- \$6,118
 - \$5,938
 - \$5,958
 - \$6,098

Ans: B, LO: 6, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $(\$8,000)(1 - .0765 - .02) - \$1,270 - \$20 = \$5,938$

156. A payroll record that accumulates the gross earnings, deductions, and net pay by employee for each pay period is the
- withholding tax table.
 - employee earnings record.
 - payroll register.
 - Wage and Tax Statement.

Ans: C, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

157. The journal entry to record the payroll for Fox-Gardiner Company for the week ending January 8, would probably include a
- credit to Salaries Expense.
 - credit to Wages Expense.
 - debit to Federal Income Taxes Payable.
 - credit to FICA Taxes Payable.

Ans: D, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

158. Employer payroll taxes include all of the following **except**
- FICA taxes.
 - federal unemployment taxes.
 - state unemployment taxes.
 - federal income taxes.

Ans: D, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

159. The record that provides a cumulative summary of each employee's gross earnings, payroll deductions, and net pay during the year and is required to be maintained to comply with state and local federal law is the
- register.
 - employee earnings record.
 - statement of earnings.
 - wage and tax statement.

Ans: B, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

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160. Post-retirement benefits include all of the following **except**
- health care.
 - life insurance.
 - pensions.
 - vacation benefits.

Ans: D, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

161. Under IFRS, liabilities
- must be legally enforceable by a contract.
 - must be legally enforceable by law.
 - may be legally enforceable by a contract or law but need not be.
 - are defined differently than under GAAP.

IFRS: Ans: C, LO: 10, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

162. When current liabilities are presented under IFRS, they are generally shown
- alphabetically.
 - in order of magnitude.
 - in order of the dates they become due.
 - in order of liquidity.

IFRS: Ans: D, LO: 10, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

163. Which of the following statements about liabilities is **incorrect**?
Companies sometimes show
- liabilities before assets.
 - long-term liabilities before current assets.
 - current liabilities netted against current assets.
 - liabilities in order of magnitude.

IFRS: Ans: D, LO: 10, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

164. Under IFRS, contingent liabilities are
- recorded in the financial statements.
 - disclosed if certain criteria are met.
 - always disclosed in the financial statements.
 - accounted for in the same way as under GAAP.

IFRS: Ans: B, LO: 10, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

165. Examples of provisions include each of the following **except** provisions for
- anticipated losses.
 - defined contribution plans.
 - employee vacation pay.
 - warranties.

IFRS: Ans: B, LO: 10, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

166. IFRS and GAAP accounting is similar for
- defined contribution plans.
 - defined benefit plans.
 - both defined benefit and defined contribution plans.
 - none of the above.

IFRS: Ans: A, LO: 10, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Answers to Multiple Choice Questions

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
39.	b	58.	b	77.	d	96.	b	115.	b	134.	a	153.	d
40.	b	59.	b	78.	c	97.	d	116.	c	135.	b	154.	c
41.	a	60.	a	79.	b	98.	b	117.	d	136.	a	155.	b
42.	a	61.	c	80.	a	99.	c	118.	b	137.	a	156.	c
43.	c	62.	c	81.	a	100.	d	119.	c	138.	b	157.	d
44.	c	63.	b	82.	c	101.	b	120.	d	139.	c	158.	d
45.	c	64.	c	83.	b	102.	a	121.	c	140.	a	159.	b
46.	d	65.	b	84.	d	103.	a	122.	b	141.	d	^a 160.	d
47.	c	66.	c	85.	d	104.	b	123.	a	142.	b	161.	c
48.	c	67.	d	86.	b	105.	b	124.	a	143.	d	162.	d
49.	a	68.	c	87.	b	106.	d	125.	a	144.	d	163.	d
50.	b	69.	d	88.	d	107.	c	126.	b	^a 145.	d	164.	b
51.	b	70.	b	89.	b	108.	c	127.	a	^a 146.	b	165.	b
52.	b	71.	c	90.	d	109.	b	128.	b	^a 147.	c	166.	a
53.	a	72.	d	91.	b	110.	d	129.	b	^a 148.	b		
54.	b	73.	b	92.	b	111.	c	130.	a	149.	c		
55.	c	74.	b	93.	a	112.	c	131.	b	150.	c		
56.	a	75.	d	94.	b	113.	c	132.	b	151.	c		
57.	c	76.	d	95.	c	114.	c	133.	b	152.	d		

BRIEF EXERCISES

BE 167

Sonoma Company has the following selected accounts after posting adjusting entries:

Accounts Payable	\$ 62,000
Notes Payable, 3-month	40,000
Accumulated Depreciation—Equipment	14,000
Notes Payable, 5-year, 6%	80,000
Payroll Tax Expense	4,000
Interest Payable	3,000
Mortgage Payable	120,000
Sales Taxes Payable	38,000

Instructions

Prepare the current liability section of Sonoma Company's balance sheet, assuming \$16,000 of the mortgage is payable next year.

Ans: N/A, LO: 1, Bloom: C, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 167 (5 min.)

SONOMA COMPANY

<u>Current Liabilities</u>	
Notes Payable, 3-month	\$ 40,000
Accounts Payable	62,000
Sales Taxes Payable	38,000
Current portion of long-term debt	16,000
Interest Payable	<u>3,000</u>
Total Current Liabilities	<u>\$159,000</u>

BE 168

Identify which of the following would be classified as current liabilities as of December 31, 2014:

1. Salaries and Wages Payable
2. Bonds Payable, maturing in 2019
3. Interest Payable, due July 1, 2015
4. Sales Taxes Payable
5. Notes Payable, due January 30, 2016

Ans: N/A, LO: 1, Bloom: K, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

Solution 168 (3 min.)

Current liabilities include: Salaries and Wages Payable, Sales Taxes Payable, and Interest Payable

BE 169

On December 1, Maisins Furniture Corporation borrowed \$10,000 on a 90-day, 6% note. Prepare the entries to record the issuance of the note, the accrual of interest at year end, and the payment of the note.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 169 (5 min.)

Dec 1	Cash.....	10,000	
	Notes Payable		10,000
Dec 31	Interest Expense.....	50	
	Interest Payable		50
Mar 1	Interest Expense.....	100	
	Interest Payable.....	50	
	Notes Payable	10,000	
	Cash		10,150

BE 170

During December 2014, Apartment Publishing sold 2,500 12-month annual magazine subscriptions at a rate of \$20 each. The first issues were mailed in February 2015. Prepare the entries on Apartment's books to record the sale of the subscriptions and the mailing of the first issues.

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 170 (4 min.)

December 2012	Cash	50,000	
	Unearned Subscription Revenue		50,000
	(2,500 × \$20 = \$50,000)		
February 2013	Unearned Subscription Revenue.....	4,167	
	Subscription Revenue		4,167
	(\$50,000 ÷ 12 = \$4,167)		

BE 171

Fig Company had cash sales of \$65,100 (including taxes) for the month of June. Sales are subject to 8.5% sales tax. Prepare the entry to record the sale.

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 171 (3 min.)

	Cash.....	65,100	
	Sales Revenue		60,000
	Sales Taxes Payable		5,100

BE 172

On December 1, Cypress Grove Company introduces a new product that includes a one-year warranty on parts. In December, 500 units are sold. Management believes that 5% of the units will be defective and that the average warranty costs will be \$60 per unit. Prepare the adjusting entry at December 31 to accrue the estimated warranty cost.

Ans: N/A, LO: 5, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

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Solution 172 (3 min.)

Dec. 31	Warranty Expense	1,500	
	Warranty Liability.....		1,500
	[(500 × 5%) × \$60]		

BE 173

Maddy Peters’s regular hourly wage rate is \$14, and she receives an hourly rate of \$21 for work in excess of 40 hours. During a March pay period, Maddy works 47 hours. Maddy’s federal income tax withholding is \$80, and she has no voluntary deductions. Compute Maddy Peters’s gross earnings and net pay for the pay period.

Ans: N/A, LO: 6, Bloom: AP, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution 173 (4 min.)

Gross earnings:			
	Regular pay (40 × \$14)	\$560.00	
	Overtime pay (7 × \$21)	<u>147.00</u>	
	Gross earnings		\$707.00
Less:	FICA taxes payable (\$707 × 7.65%)	\$54.09	
	Federal income taxes payable	<u>80.00</u>	<u>134.09</u>
	Net pay		<u>\$572.91</u>

BE 174

Maddy Peters’s regular hourly wage rate is \$14, and she receives an hourly rate of \$21 for work in excess of 40 hours. During a March pay period, Maddy works 47 hours. Maddy’s federal income tax withholding is \$80, and she has no voluntary deductions. Prepare the journal entry to record Maddy’s pay for the period. Use March 15 for the end of the pay period.

Ans: N/A, LO: 6, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 174 (5 min.)

Mar. 15	Salaries and Wages Expense	707.00	
	FICA Taxes Payable (\$707 × 7.65%)		54.09
	Federal Income Taxes Payable		80.00
	Salaries and Wages Payable.....		572.91

BE 175

In February, gross earnings in Napoli Company totaled \$75,000. All earnings are subject to 7.65% FICA taxes, 5.4% state unemployment taxes, and 0.8% federal unemployment taxes. Prepare the entry to record February payroll tax expense.

Ans: N/A, LO: 7, Bloom: AP, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 175 (4 min.)

Jan. 31	Payroll Tax Expense.....	10,388	
	FICA Taxes Payable (\$75,000 × 7.65%).....		5,738
	Federal Unemployment Taxes Payable (\$75,000 × .8%)		600
	State Unemployment Taxes Payable (\$75,000 × 5.4%)..		4,050

***BE 176**

Welly Company employees are entitled to one day's vacation for each month worked. In February, 60 employees worked the full month. Record the vacation pay liability for February assuming the average daily pay for each employee is \$90.

Ans: N/A, LO: 9, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

***Solution 176** (3 min.)

Feb. 28	Vacation Benefits Expense (60 × \$90).....	5,400	
	Vacation Benefits Payable		5,400

EXERCISES

Ex. 177

Faulkner Company has the following selected accounts after posting adjusting entries:

Accounts Payable	\$ 45,000
Notes Payable, 3-month	70,000
Accumulated Depreciation—Equipment	14,000
FICA Taxes Payable	27,000
Notes Payable, 5-year, 8%	30,000
Warranty Liability	29,000
Payroll Tax Expense	6,000
Interest Payable	3,000
Mortgage Payable	200,000
Sales Taxes Payable	16,000

Instructions

- (a) Prepare the current liability section of Faulkner Company's balance sheet, assuming \$25,000 of the mortgage is payable next year. (List liabilities in magnitude order, with largest first.)
- (b) Comment on Faulkner's liquidity, assuming total current assets are \$450,000.

Ans: N/A, LO: 1 and 4, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 177 (10 min.)

	FAULKNER COMPANY	
	<u>Current Liabilities</u>	
	Notes payable, 3-month	\$ 70,000
	Accounts payable	45,000
	Warranty liability	29,000
	FICA taxes payable	27,000
	Long-term debt due within one year	25,000
	Sales taxes payable	16,000
	Interest payable	3,000
	Total Current Liabilities	\$215,000

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Solution 177 (Cont.)

- (b) The liquidity position looks favorable. If all current liabilities are paid out of current assets, there would still be \$235,000 of current assets. The current assets are more than twice the current liabilities and it appears as though Faulkner Company has sufficient current resources to meet current obligations when due.

Ex. 178

Prepare the necessary journal entries for the following transactions:

- (a) On September 1, Draper Company borrowed \$180,000 from Dixon County Bank on a 6-month, 8% note.
 (b) On December 31, Draper Company accrued interest (assume adjusting entries are only made at the end of the year).

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 178 (5 min.)

(a) Cash	180,000	
Notes Payable.....		180,000
(b) Interest Expense	4,800	
Interest Payable (\$180,000 × .08 × 4/12)		4,800

Ex. 179

On March 1, Mena Company borrows \$150,000 from High Country Bank by signing a 6-month, 8%, interest-bearing note.

Instructions

Prepare the necessary entries below associated with the note payable on the books of Mena Company.

- (a) Prepare the entry on March 1 when the note was issued.
 (b) Prepare any adjusting entries necessary on June 30 in order to prepare the semi-annual financial statements. Assume no other interest accrual entries have been made.
 (c) Prepare the adjusting entry at August 31 to accrue interest.
 (d) Prepare the entry to record payment of the note at maturity.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 179 (10 min.)

(a) March 1	Cash.....	150,000	
	Notes Payable		150,000
(b) June 30	Interest Expense	4,000	
	Interest Payable (\$150,000 × 8% × 4 ÷ 12).....		4,000
(c) Aug. 31	Interest Expense	2,000	
	Interest Payable.....		2,000
(d) Sept. 1	Notes Payable.....	150,000	
	Interest Payable	6,000	
	Cash		156,000

Ex. 180

Dunlin Development Company had the following transactions involving notes payable.

- Nov. 1, 2014 Borrows \$120,000 from Merchants and Marine Bank by signing a 3-month, 10% note.
- Dec. 31, 2014 Prepares the adjusting entry.
- Feb. 1, 2015 Pays principal and interest to Merchants and Marine Bank.

Instructions

Prepare journal entries for each of the transactions.

Ans: N/A, LO: 2, Bloom: AN, Difficulty: Medium, Min: 8, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 180 (8 min.)

November 1, 2014			
Cash	120,000		
Notes Payable.....		120,000	
December 31, 2014			
Interest Expense			
(\$120,000 × 10% × 2/12)	2,000		
Interest Payable		2,000	
February 1, 2015			
Notes Payable.....	120,000		
Interest Payable	2,000		
Interest Expense	1,000		
Cash			123,000

Ex. 181

LaCrema Company publishes a monthly decorating magazine, Remodelista. Subscriptions to the magazine cost \$25 per year. During October 2014, LaCrema sells 18,000 subscriptions beginning with the November issue. LaCrema prepares financial statements quarterly and recognizes subscription revenue earned at the end of the quarter. The company uses the accounts Unearned Subscriptions and Subscription Revenue.

Instructions

- (a) Prepare the entry in October for the receipt of the subscriptions.
- (b) Prepare the adjusting entry at December 31, 2014, to record subscription revenue earned in December 2014.
- (c) Prepare the adjusting entry at March 31, 2015, to record subscription revenue earned in the first quarter of 2015.

Ans: N/A, LO: 3, Bloom: AN, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 181 (5 min.)

(a)	Oct. 31	Cash	450,000
		Unearned Subscription Revenue	
		(18,000 × \$25).....	450,000

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Solution 181 (Cont.)

(b)	Dec. 31	Unearned Subscription Revenue	75,000	
		Subscription Revenue		
		(\$450,000 × 2/12)		75,000
(c)	Mar. 31	Unearned Subscription Revenue	112,500	
		Subscription Revenue		
		(\$450,000 × 3/12)		112,500

Ex. 182

Blalock Company sells products with a 2-year warranty. Past experience indicates that 2% of the units sold will be returned during the warranty period for repairs. The average cost of repairs under warranty is estimated to be \$75 per unit. During 2014, 7,000 units were sold at an average price of \$400. During the year, repairs were made on 55 units at a cost of \$3,600.

Instructions

Prepare journal entries to record the repairs made under warranty and estimated warranty expense for the year.

Ans: N/A, LO: 5, Bloom: AN, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 182 (5 min.)

Warranty Liability	3,600	
Repair Parts/Wages Payable		3,600
(To record cost of honoring 55 warranties)		
Warranty Expense	10,500	
Warranty Liability		10,500
(To accrue estimated warranty costs on 140 warranty contracts)		
Number of units sold	7,000	
Estimated rate of defective units	<u>× 2%</u>	
Total estimated defective units	140	
Average warranty repair costs	<u>\$ 75</u>	
Estimated warranty expense	<u>\$10,500</u>	

Ex. 183

Back Cove Yacht Company billed its customers a total of \$1,575,000 for the month of November. The total includes a 5% state sales tax.

Instructions

- (a) Determine the proper amount of revenue to report for the month.
- (b) Prepare the general journal entry to record the revenue and related liabilities for the month.

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 183 (5 min.)

- (a) $\$1,575,000 \div 1.05 = \$1,500,000$ is the total sales revenue.
- (b) $\$1,500,000 \times .05 = \$75,000$ is the state sales tax liability.

Journal Entry:

Accounts Receivable	1,575,000	
Sales Revenue		1,500,000
Sales Taxes Payable		75,000

Ex. 184

Ishee Company does not segregate sales and sales taxes on its cash register. Its register total for the month is \$291,500, which includes a 6% sales tax.

Instructions

Compute sales taxes payable, and make the entry to record sales and sales taxes payable.

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 184 (5 min.)

Sales taxes payable = \$14,700 [$\$291,500 - (\$291,500 \div 1.06)$]

Cash	291,500	
Sales Taxes Payable		16,500
Sales Revenue ($\$291,500 \div 1.06$).....		275,000

Ex. 185

Schweigert Paint Company, which prepares annual financial statements, is preparing adjusting entries on December 31. Analysis indicates the following:

1. The company is the defendant in an employee discrimination lawsuit involving \$50,000 of damages. Legal counsel believes it is unlikely that the company will have to pay any damages.
2. December 31st is a Friday. The employees of the company have been paid on Monday, December 27th for the previous week which ended on Friday, December 24th. The company employs 30 people who earn \$100 per day and 15 people who earn \$160 per day. All employees work 5-day weeks.
3. The company is a defendant in a \$500,000 product liability lawsuit. Legal counsel believes the company probably will have to pay the amount requested.
- ^a4. Employees are entitled to one day's vacation for each month worked. All employees described above in (2.) worked the month of December.

Instructions

Prepare any adjusting entries necessary at the end of the year.

Ans: N/A, LO: 3,5, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Ex. 188

Sweet Baking Company sells professional grade mixers for home use. The machines carry a 2-year warranty. Past experience indicates that 6% of the units sold will be returned during the warranty period for repairs. The average cost of repairs under warranty is \$70 for labor and \$90 for parts per unit. During 2014, 2,500 mixers were sold at an average price of \$800. During the year, 60 of the machines that were sold were repaired at the average price per unit.

Instructions

- (a) Prepare the journal entry to record the repairs made under warranty.
- (b) Prepare the journal entry to record the warranty expense for the year.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 188 (10 min.)

- (a) Labor on repaired units: $\$70 \times 60 = \$4,200$
 Parts on repaired units: $\$90 \times 60 = \$5,400$

Warranty Liability.....	9,600	
Repair Parts.....		5,400
Salaries and Wages Payable.....		4,200
(To record honoring of 60 warranty contracts)		

- (b) 2,500 units \times 6% = 150 units
 150 units \times \$160 = \$24,000

Warranty Expense.....	24,000	
Warranty Liability		24,000
(To record estimated cost of honoring 150 warranty contracts)		

The balance in Warranty Liability at year end is \$14,400 ($\$24,000 - \$9,600$), which equals the expected cost of honoring the 90 remaining expected warranty contracts.

Ex. 189

Dorie Greenspan Publications publishes a food and travel magazine. The magazine sells for \$3 a copy on the newsstand. Yearly subscriptions to the magazine cost \$24 per year (12 issues). During December 2014, Dorie Greenspan Publications sells 12,000 copies of the food and travel magazine at newsstands and receives payment for 20,000 subscriptions for 2015. Financial statements are prepared monthly.

Instructions

- (a) Prepare the December 2014 journal entries to record the newsstand sales and subscriptions received.
- (b) Prepare the necessary adjusting entry on January 31, 2015. The January 2015 issue has been mailed to subscribers.

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

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Solution 189 (5 min.)

(a)	Cash.....	36,000	
	Sales Revenue.....		36,000
	Cash.....	480,000	
	Unearned Subscription Revenue		480,000
(b)	\$480,000 ÷ 12 months = \$40,000		
	Unearned Subscription Revenue	40,000	
	Subscription Revenue		40,000

Ex. 190

Rich Harvest Company sells a product that includes a one-year warranty on parts and labor. During the year, 10,000 units are sold. Rich Harvest expects that 3% of the units will be defective and that the average warranty cost will be \$50 per unit. Actual warranty costs incurred during the year were \$14,000.

Instructions

Prepare the journal entries to record (a) the estimated warranty costs and (b) the actual costs incurred.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 190 (5 min.)

(a)	Warranty Expense (10,000 × 3% × \$50).....	15,000	
	Warranty Liability		15,000
(b)	Warranty Liability	14,000	
	Repair Parts, Wages Payable, etc.....		14,000

Ex. 191

Old Hampton Company is preparing adjusting entries at December 31. An analysis reveals the following:

1. During December, Old Hampton Company sold 3,000 units of a product that carries a 60-day warranty. The sales for this product totaled \$100,000. The company expects 4% of the units to need repair under the warranty and it estimates that the average repair cost per unit will be \$15.
2. The company has been sued by a disgruntled employee. Legal counsel believes that it is reasonably possible that the company will have to pay \$200,000 in damages.
3. The company has been named as one of several defendants in a \$400,000 damage suit. Legal counsel believes it is unlikely that the company will have to pay any damages.
- ^a4. Employees earn vacation pay at a rate of 1 day per month. During December, ten employees qualify for vacation pay. Their average daily wage is \$90 per employee.

Instructions

Prepare adjusting entries, if required, for each of the four items.

Ans: N/A, LO: 5.9, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 191 (10 min.)

1. $3,000 \text{ units} \times 4\% = 120 \text{ units}$ expected to be defective
 $120 \text{ units} \times \$15 = \$1,800$

Warranty Expense.....	1,800	
Warranty Liability		1,800

2. No entry is required unless the loss is probable. Disclosure of this contingent liability should be made in the notes to the financial statements.

3. Contingent losses that are remote do not require accrual or disclosure. No entry is required.

- ^a4. $10 \text{ employees} \times \$90 \times 1 \text{ day} = \900

Vacation Benefits Expense.....	900	
Vacation Benefits Payable		900

Ex. 192

Mike Dooley's regular hourly wage is \$16 an hour. He receives overtime pay at the rate of time and a half. The FICA tax rate is 7.65%. Mike is paid every two weeks. For the first pay period in January, Mike worked 86 hours of which 6 were overtime hours. Mike's federal income tax withholding is \$350 and his state income tax withholding is \$110. Mike has authorized that \$50 be withheld from his check each pay period for savings bonds.

Instructions

Compute Mike Dooley's gross earnings and net pay for the pay period showing each payroll deduction in arriving at net pay.

Ans: N/A, LO: 6, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution 192 (10 min.)

Gross Earnings:

Regular Pay: 80 hours × \$16/hr. =		\$1,280
Overtime Pay: \$16 × 1.5 = \$24/hr. for overtime		
6 overtime hours × \$24		<u>144</u>
Total Gross Earnings:		<u>\$1,424</u>

Net Pay:

Gross Earnings		\$1,424.00
Less: Federal Income Taxes Payable	\$350.00	
State Income Taxes Payable	110.00	
FICA Taxes Payable	108.94	
Savings Bonds Payable	<u>50.00</u>	<u>618.94</u>
Net Pay		<u>\$ 805.06</u>

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Ex. 193

Marilou Wheeler's regular hourly wage rate is \$14, and she receives a wage of 1 1/2 times her regular rate for work in excess of 40 hours. During a June pay period, Marilou worked 46 hours. Marilou's federal income tax withholding is \$68, and her only voluntary deduction is \$25 for group hospitalization insurance. The FICA tax rate is 7.65%.

Instructions

Compute Marilou's (a) gross earnings and (b) net pay for the pay period.

Ans: N/A, LO: 6, Bloom: AP, Difficulty: Medium, Min: 6, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution 193 (6 min.)

(a) Gross earnings:

Regular pay (40 × \$14) =	\$560	
Overtime pay (6 × \$21) =	<u>126</u>	<u>\$686</u>

(b) Gross earnings		\$686.00
Less: Federal income taxes	\$68.00	
FICA taxes (\$686 × 7.65%)	52.48	
Group insurance	<u>25.00</u>	<u>145.48</u>
Net pay		<u>\$540.52</u>

Ex. 194

Employee earnings records for Oz Company reveal the following gross earnings for four employees through the pay period of December 15.

T. Tucker	\$95,500	D. Paiva	\$ 108,500
B. Bitney	\$107,200	N. Doane	\$112,000

For the pay period ending December 31, each employee's gross earnings is \$4,800. The FICA tax rate is 7.65% on gross earnings of \$110,100.

Instructions

Compute the FICA withholdings that should be made for each employee for the December 31 pay period. (Show computations.)

Ans: N/A, LO: 6, Bloom: AP, Difficulty: Medium, Min: 12, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution 194 (12 min.)

T. Tucker $\$4,800 \times 7.65\% = \367.20 . Tucker's total gross earnings for the year are $\$100,300 = (\$95,500 + \$4,800)$, which is below the \$110,100 maximum for Social Security taxes.

D. Paiva $(\$1,600 \times 6.2\%) + (\$4,800 \times 1.45\%) = \$168.80$. Paiva's total gross earnings for the year are \$113,300 ($\$108,500 + \$4,800$). Thus, \$1,600 of the gross earnings ($\$4,800 - \$3,200$) for this pay period are subject to Social Security taxes. In addition, \$4,800 is subject to Medicare (1.45%) taxes

Solution 194 (Cont.)

B. Bitney $(\$2,900 \times 6.2\%) + (\$4,800 \times 1.45\%) = \$249.40$. Bitney's total gross earnings for the year are \$112,000 (\$107,200 + \$4,800). Thus, only \$2,900 of the gross earnings (\$4,800 – \$1,900) for this pay period are subject to Social Security taxes. In addition, \$4,800 is subject to medicare (1.45%) taxes

N. Doane $(\$4,800 \times 1.45\%) = \69.60 . Doane's gross earnings prior to this pay exceed the maximum amount subject to Social Security taxes. However, all of the gross earnings in the December 31 pay period are subject to medicare taxes.

Ex. 195

Selected data from a February payroll register for Ginn Company are presented below. Some amounts are intentionally omitted.

Gross earnings:			
Regular	\$22,200	State income taxes	\$(3)
Overtime	(1)	Union dues	200
Total	(2)	Total deductions	(4)
Deductions:			
FICA taxes	\$1,989	Net pay	\$19,931
Federal income taxes	2,840	Accounts debited:	
		Salaries/wages expense	(5)

FICA taxes are 7.65%. State income taxes are 4% of gross earnings.

Instructions

- (a) Fill in the missing amounts.
- (b) Journalize the February payroll and the payment of the payroll.

Ans: N/A, LO: 6, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 195 (15 min.)

- (a) (1) \$ 3,800 [\$26,000 see (2) below – \$22,200]
- (2) \$26,000 (FICA taxes \$1,989 ÷ 7.65%)
- (3) \$ 1,040 (\$26,000 × 4%)
- (4) \$ 6,069 (\$26,000 – \$19,931)
- (5) \$26,000

(b)	Feb. 28	Salaries and Wages Expense.....	26,000	
		FICA Taxes Payable		1,989
		Federal Income Taxes Payable		2,840
		State Income Taxes Payable.....		1,040
		Union Dues Payable.....		200
		Salaries and Wages Payable.....		19,931
	28	Salaries and Wages Payable.....	19,931	
		Cash.....		19,931

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Ex. 196

Takei Company's payroll for the week ending January 15 amounted to \$367,000 for salaries and wages. None of the employees has reached the earnings limits specified for federal or state employer payroll taxes. The following deductions were withheld from employees' salaries and wages:

Federal Income Tax	\$75,000
State Income Tax	13,500
FICA Taxes	28,075
Union Dues	4,100
United Fund Contributions	2,700

Federal unemployment tax (FUTA) rate is 6.2% less a credit equal to the rate paid for state unemployment taxes. The state unemployment tax (SUTA) rate is 5.4%.

Instructions

Prepare the journal entry to record the weekly payroll ending January 15 and also the employer's payroll tax expense on the payroll.

Ans: N/A, LO: 6,7, Bloom: AN, Difficulty: Medium, Min: 8, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 196 (8 min.)

Jan. 15	Salaries and Wages Expense	367,000	
	Federal Income Taxes Payable		75,000
	State Income Taxes Payable		13,500
	FICA Taxes Payable		28,075
	Union Dues Payable.....		4,100
	United Fund Contributions Payable		2,700
	Salaries and Wages Payable.....		243,625
	(To record payroll for the week ending January 15)		
15	Payroll Tax Expense	50,829	
	FICA Taxes Payable		28,075
	Federal Unemployment Taxes Payable.....		2,936
	State Unemployment Taxes Payable.....		19,818
	(To record employer's payroll taxes on January 15 payroll)		

Ex. 197

Phaedra Hise had earned (accumulated) salary of \$103,000 through November 30. Her December salary amounted to \$9,500. Richard Tangard began employment on December 1 and will be paid his first month's salary of \$7,000 on December 31. Income tax withholding for December for each employee is as follows:

	<u>Phaedra Hise</u>	<u>Richard Tangard</u>
Federal Income Tax	\$2,180	\$1,390
State Income Tax	390	250

Ex. 197 (Cont.)

The following payroll tax rates are applicable:

FICA tax on first \$110,100	7.65% (1.45% over 110,100)
FUTA tax on first \$7,000	6.2%*
SUTA tax on first \$7,000	5.4%

*Less a credit equal to the state unemployment contribution

Instructions

Record the payroll for the two employees at December 31 and record the employer's share of payroll tax expense for the December 31 payroll.

Ans: N/A, LO: 6,7, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 197 (15 min.)

Dec. 31	Salaries and Wages Expense.....	16,500	
	Federal Income Taxes Payable.....		3,570
	State Income Taxes Payable		640
	FICA Taxes Payable		1,114
	Salaries and Wages Payable		11,176
	(To record December 31 payroll)		

FICA Taxes

Phaedra Hise (\$7,100 × 7.65%) + (\$2,400 × 1.45%) =	\$578
Richard Tangard (\$7,000 × 7.65%) =	<u>536</u>
	<u>\$1,114</u>

Dec. 31	Payroll Tax Expense.....	1,548	
	FICA Taxes Payable		1,114
	Federal Unemployment Taxes Payable.....		56
	State Unemployment Taxes Payable		378
	(To record employer's share of payroll taxes for Dec. 31 payroll)		

(FUTA and SUTA are based only on Richard Tangard's salary of \$7,000.)

Ex. 198

Assume that the payroll records of Klein Tanker Company provided the following information for the weekly payroll ended November 30, 2014.

Employee	Hours Worked	Hourly Pay Rate	Federal Income Tax	Union Dues	Year-to-Date Earnings Through Previous Week
T. King	44	\$45	\$362	\$9	\$111,000
T. Binion	46	15	97	5	23,200
N.Cole	40	25	148	—	5,700
C. Hennesey	42	30	230	7	49,500

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Ex. 198 (Cont.)

Additional information: All employees are paid overtime at time and a half for hours worked in excess of 40 per week. The FICA tax rate is 7.65% for the first \$110,100 of each employee's annual earnings. The employer pays unemployment taxes of 6.2% (5.4% for state and .8% for federal) on the first \$7,000 of each employee's annual earnings.

Instructions

- (a) Prepare the payroll register for the pay period.
- (b) Prepare general journal entries to record the payroll and payroll taxes.

Ans: N/A, LO: 6,7, Bloom: AP, Difficulty: Medium, Min: 20, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 198 (20 min.)

(a) DARBY OIL COMPANY
Payroll Register
For the Week Ending November 26, 2012

Employee	Total Hours	Earnings			Deductions			Net Pay
		Reg.	Overtime	Gross Pay	FICA	FIT	Union	
T.King	44	1,800	270	2,070	—	362	9	1,699.00
T.Binion	46	600	135	735	56.23	97	5	576.77
N.Cole	40	1,000	—	1,000	76.50	148	—	775.50
C.Hennesey	42	1,200	90	1,290	98.69	230	7	954.31
		<u>4,600</u>	<u>495</u>	<u>5,095</u>	<u>231.42</u>	<u>837</u>	<u>21</u>	<u>4,005.58</u>

- (b) Nov. 30 Salaries and Wages Expense 5,095.00
- FICA Taxes Payable..... 231.42
- Federal Income Taxes Payable 837.00
- Union Dues Payable..... 21.00
- Salaries and Wages Payable..... 4,005.58
- (To record weekly payroll)
- 30 Payroll Tax Expense 293.42
- State Unemployment Taxes Payable (\$1,000 × .054) 54.00
- Federal Unemployment Taxes Payable (\$1,000 × .008) 8.00
- FICA Taxes Payable..... 231.42
- (To record employer's payroll taxes)

Ex. 199

Ada Marion earns a salary of \$7,500 per month during the year. FICA taxes are 7.65% on the first \$110,100 of gross earnings. Federal unemployment insurance taxes are 6.2% of the first \$7,000; however, a credit is allowed equal to the state unemployment insurance taxes of 5.4% on the \$7,000. During the year, \$25,600 was withheld for federal income taxes and \$5,700 was withheld for state income taxes.

Ex. 199 (Cont.)

Instructions

- (a) Prepare a journal entry summarizing the payment of Ada’s total salary during the year.
- (b) Prepare a journal entry summarizing the employer payroll tax expense on Ada’s salary for the year.
- (c) Determine the cost of employing Grace for the year.

Ans: N/A, LO: 6,7, Bloom: AP, Difficulty: Medium, Min: 8, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 199 (8 min.)

(a) Salaries and Wages Expense.....	90,000	
Federal Income Taxes Payable		25,600
State Income Taxes Payable		5,700
FICA Taxes Payable (\$90,000 × .0765).....		6,885
Salaries and Wages Payable.....		51,815
(b) Payroll Tax Expense	7,319	
FICA Taxes Payable.....		6,885
Federal Unemployment Taxes Payable		56
State Unemployment Taxes Payable		378
(c) The total cost of employment is: \$90,000 + \$7,319 = \$97,319.		

Ex. 200

Massimini Company had the following payroll data for the year:

Gross earnings of employees	\$740,000
Employee earnings not subject to Social Security tax	140,000
Employee earnings not subject to FUTA or SUTA tax	490,000

Assuming the following:

FICA tax rate on first \$110,100	7.65% (1.45% over \$110,100)
State Unemployment tax rate	5.4% (SUTA)
Federal Unemployment tax rate	.8% (FUTA)

Instructions

Compute Massimini’s payroll tax expense for the year. Make a summary journal entry to record the payroll tax expense.

Ans: N/A, LO: 7, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 200 (15 min.)

Compute FICA tax:	\$740,000
Less: Exempted wages	<u>140,000</u>
Wages subject to Social Security tax	600,000
Applicable tax rate	<u>.062</u>
	\$ 37,200
+ Medicare tax (\$740,000 × .0145)	<u>10,730</u>
FICA tax expense	\$47,930

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Solution 200 (Cont.)

Compute FUTA tax:	\$740,000
Less: Exempted wages	<u>490,000</u>
Wages subject to FUTA tax	250,000
Applicable tax rate	<u>.008</u>
FUTA tax expense	<u>\$ 2,000</u>

Wages subject to SUTA tax	\$250,000
Applicable tax rate	<u>.054</u>
SUTA tax expense	<u>\$ 13,500</u>

Journal entry to record payroll tax expense:

Payroll Tax Expense.....	63,430	
FICA Taxes Payable		47,930
Federal Unemployment Taxes Payable		2,000
State Unemployment Taxes Payable		13,500

Ex. 201

In March, gross earnings of Perlman Company totaled \$250,000. All earnings are subject to 7.65% FICA taxes, 5.4% state unemployment taxes, and 0.8% federal unemployment taxes.

Instructions

- (a) Compute the employer's payroll tax expense.
- (b) Prepare the entry to record payroll taxes.

Ans: N/A, LO: 7, Bloom: AP, Difficulty: Medium, Min: 6, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 201 (6 min.)

(a) Payroll tax expense = \$34,625 [(7.65% + 5.4% + .8%) × \$250,000]

(b) Payroll Tax Expense.....	34,625	
FICA Taxes Payable (\$250,000 × 7.65%)		19,125
State Unemployment Taxes Payable		13,500*
Federal Unemployment Taxes Payable.....		2,000**

*\$250,000 × 5.4%

**\$250,000 × 0.8%

Ex. 202

The following payroll liability accounts are included in the ledger of Devito Company on January 1, 2014:

FICA Taxes Payable	\$1,750
Federal Income Taxes Payable	4,000
State Income Taxes Payable	665
Federal Unemployment Taxes Payable	175
State Unemployment Taxes Payable	1,190
Union Dues Payable	400
Health Insurance Payable	5,000
U.S. Savings Bonds Payable	1,500

In January, the following transactions occurred:

- Jan. 9 Sent a check for \$5,000 to Blue Cross and Blue Shield.
- 11 Deposited a check for \$5,750 in Federal Reserve Bank for FICA taxes and federal income taxes withheld.
- 14 Sent a check for \$400 to the union treasurer for union dues.
- 18 Paid state income taxes withheld from employees.
- 21 Paid state and federal unemployment taxes.
- 22 Purchased U.S. Savings Bonds for employees by writing a check for \$1,500.

Instructions

Journalize the January transactions

Ans: N/A, LO: 7, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 202 (15 min.)

Jan. 9	Health Insurance Payable.....	5,000	
	Cash		5,000
11	FICA Taxes Payable.....	1,750	
	Federal Income Taxes Payable	4,000	
	Cash		5,750
14	Union Dues Payable	400	
	Cash		400
18	State Income Taxes Payable	665	
	Cash		665
21	Federal Unemployment Taxes Payable	175	
	Cash		175
	State Unemployment Taxes Payable	1,190	
	Cash		1,190
22	U.S. Savings Bonds Payable	1,500	
	Cash		1,500

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Ex. 203

Match the codes assigned to the following payroll functions to the procedures listed below:

H	Hiring Employees
T	Timekeeping
PRE	Preparing the Payroll
PAY	Paying the Payroll

- ___ 1. Distribution of checks by the treasurer
- ___ 2. Supervisor approves hours worked
- ___ 3. Documentation of employee hiring
- ___ 4. Maintenance of payroll records
- ___ 5. Verification of payroll calculations
- ___ 6. Screening and interviewing of job applicants
- ___ 7. Use of a time clock
- ___ 8. Signing prenumbered payroll checks

Ans: N/A, LO: 8, Bloom: AP, Difficulty: Medium, Min: 4, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Risk Management, AICPA PC: None, IMA: Business Economics

Solution 203 (4 min.)

- | | |
|--------|--------|
| 1. PAY | 5. PRE |
| 2. T | 6. H |
| 3. H | 7. T |
| 4. PRE | 8. PAY |

COMPLETION STATEMENTS

204. A current liability is a debt that can be expected to be paid within _____ year or the _____, whichever is longer.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

205. Liabilities are classified on the balance sheet as being _____ liabilities or _____ liabilities.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

206. Obligations in written form are called _____ and usually require the borrower to pay interest.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

207. With an interest-bearing note, a borrower must pay the _____ of the note plus _____ at maturity.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

208. Sales taxes collected from customers are a _____ of the business until they are remitted to the taxing agency.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

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209. The current ratio is current assets divided by _____.

Ans: N/A, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

210. A contingent liability should be recorded in the accounts if it is _____ that the contingency will occur and the amount is _____.

Ans: N/A, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

211. Two federal taxes which are levied against employees' wages that must be deducted in arriving at net pay are (1)_____ taxes and (2)_____ taxes.

Ans: N/A, LO: 6, Bloom: AP, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

212. The employer incurs a payroll tax expense equal to the amount contributed by each employee for _____ taxes.

Ans: N/A, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

213. A payroll tax expense which is borne entirely by the employer is the federal _____ tax.

Ans: N/A, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

Answers to Completion Statements

- 204. one, operating cycle
- 205. current, long-term
- 206. notes payable
- 207. face value, interest
- 208. current liability

- 209. current liabilities
- 210. probable, reasonably estimable
- 211. FICA, federal income
- 212. FICA
- 213. unemployment

MATCHING

214. Match the items below by entering the appropriate code letter in the space provided.

- | | |
|---------------------------|--|
| A. Current liability | F. Federal income taxes |
| B. Notes payable | G. FICA taxes |
| C. Wage and Tax Statement | H. Federal unemployment taxes |
| D. Current ratio | ^a I. Post-retirement benefits |
| E. Contingent liability | ^a J. Pension plan |

- ___ 1. Levied against employees' wages without limit.
- ___ 2. An obligation in the form of a written promissory note.
- ___ 3. An agreement whereby an employer provides benefits to employees after they retire.
- ___ 4. A payroll tax expense levied only against the employer based on employees' wages.
- ___ 5. A measure of a company's liquidity.
- ___ 6. A debt than can reasonably be expected to be paid from current assets.
- ___ 7. A form showing gross earnings, FICA taxes withheld, and income taxes withheld.
- ___ 8. Levied against employees' wages with a maximum limit.
- ___ 9. Payments by employers to retired employees.
- ___ 10. A potential liability that may become an actual liability in the future.

Ans: N/A, LO: 1-9, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

Answers to Matching

- | | |
|-------------------|-------------------|
| 1. F | 6. A |
| 2. B | 7. C |
| ^a 3. J | 8. G |
| 4. H | ^a 9. I |
| 5. D | 10. E |

SHORT-ANSWER ESSAY QUESTIONS

S-A E 215

A company will incur product repair costs in the future if products that it sells currently under warranty are brought in for repair during the warranty period. The company will also incur bad debts expense in the future if customers who buy on credit currently are unable to pay their accounts. Are the accounting procedures for these two contingent costs (warranty expense and bad debt expense) related or guided by the same accounting principle? Briefly explain.

Ans: N/A, LO: 5, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Communications, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

Solution 215

The accounting procedures for both warranty expense and bad debt expense are guided by the expense recognition principle. Accounting for warranty expense requires matching the expense with the period in which the revenue is earned for the product under warranty. Similarly, accounting for bad debt expense matches the bad debt expense resulting from credit sales with the period when revenue from the credit sale is earned.

The accounting procedures for matching these costs with the related revenues are also similar because the costs can be estimated based on prior experience. Matching is possible by basing the expense on an estimate, using past data as a guide.

S-A E 216

What is a contingent liability? Give an example of a contingent liability that is usually recorded in the accounts.

Ans: N/A, LO: 5, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Communications, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

Solution 216

A contingent liability is a potential liability that may become an actual liability in the future. Contingent liabilities are only recorded in the accounts if they are probable and the amount is reasonably estimable. Warranty costs are a contingent liability usually recorded in the accounts since they are both probable in occurrence and subject to estimation.

S-A E 217

An employee's net pay consists of gross pay less mandatory and voluntary payroll deductions. Identify the mandatory payroll deductions and give two or three examples of common voluntary deductions. Are these deductions recognized as payroll expenses by the employer? What type of payroll expenses does the employer incur related to having a payroll?

Ans: N/A, LO: 6, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Communications, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

Solution 217

Mandatory payroll deductions include both federal and state income taxes and also FICA taxes. Among the deductions that are voluntary payroll deductions are United Way contributions, savings account deposits, insurance payments, and pension plan contributions.

These mandatory payroll deductions do not represent payroll expenses for the employer because the employer is only acting as an agent in collecting these deductions. The expenses that do constitute payroll expenses for the employer include the federal and state unemployment taxes and the employer share of FICA taxes.

S-A E 218

- (a) Identify the three types of employer payroll taxes.
- (b) How are tax liability accounts and payroll tax expense accounts classified in the financial statements?

Ans: N/A, LO: 7, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Communications, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

Solution 218

- (a) The three types of taxes are: (1) FICA, (2) federal unemployment, and (3) state unemployment.
- (b) The tax liability accounts are classified as current liabilities in the balance sheet. Payroll tax expense is classified under operating expenses in the income statement.

S-A E 219 (Ethics)

Borowitz Company maintains two separate accounts payable computer systems. One is known to all the users, and is used to process payments to vendors. Employees enter the vendor code, or the name and address of new vendors, the amount, the account, and so on. The other system is a secret one. It is used to cross-check the vendors against an approved vendor list. If a vendor is not listed as approved, the payment process is halted. Internal audit employees seek to verify the existence of a bona fide claim by the vendor. All inquiries are made at the top management level, and very discreetly. No one but top management, the internal audit staff, and the Board of Directors of the company is even aware of the second system.

Required:

Is it ethical for a company to have a secret system like the one described? Explain.

Ans: N/A, LO: 8, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Ethics, AICPA BB: Industry/Sector Perspective, AICPA FN: Risk Management, AICPA PC: None, IMA: Internal Controls

Solution 219

Secret systems that seek to verify the integrity of the non-secret primary system are certainly ethical. In fact, nearly all fraud and theft detection systems are secret. It is only the misuse of these systems, such as to obtain unauthorized information, or to commit some other crime, that is unethical.

S-A E 220 (Communication)

Kellog Industries is a manufacturing company that makes various industrial components out of aluminum. Kellog is located in a large city in the northeastern United States. Various labor disputes have occurred in the city, some with acrimonious public debate concerning the honesty of management. During one of Kellog's routine employee meetings, Colin Ross, a production worker, brought up the issue of the cost of a worker as reported in the company's annual report.

The cost was given as \$32,000 per year. Colin points out that the average wage rate of \$12 per hour is at most around \$25,000 in gross wages. He asks whether the company is adding in overtime, because if so, the figures are misleading because the employees are not allowed to work overtime.

Required:

Prepare a note explaining to Mr. Ross how Kellog might calculate a cost per employee that is greater than gross wages. Explain in general terms only. Do not use any calculations.

Ans: N/A, LO: 7, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Communications, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

Solution 220

(letterhead)

Dear Mr. Ross:

I was happy to meet with you in the monthly employee meetings. It was good to see that you had given so much thought to each issue. One of the issues about which you expressed concern was the company's use of a \$32,000 figure as an average cost of an employee, when the average wage rate of an employee is only \$12 per hour. You were right that the average gross pay of an employee is only around \$25,000. There are, however, some additional costs that most employees never hear about, but that companies must pay. One of these is unemployment insurance. Exactly how much we pay depends on how many layoffs there are in the company and in the state, but we have to pay unemployment taxes on all employees.

We also have to match the F.I.C.A. contributions. The greatest additional cost, however, is employee benefits. We pay around \$2,000 per year per employee to get the best insurance benefits we can for our employees. We also pay for your uniforms; and we help you stay up-to-date by sponsoring employee education programs.

I know this note has been pretty general—you'll be glad to see all the figures spelled out in detail in next year's annual report. Thanks again for coming to the meetings. I hope to see you again next month.

(signature)