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CHAPTER 10

CURRENT LIABILITIES AND PAYROLL

CHAPTER LEARNING OBJECTIVES

1. ***Account for determinable or certain current liabilities.*** Liabilities are present obligations arising from past events, to make future payments of assets or services. Determinable liabilities have certainty about their existence, amount, and timing—in other words, they have a known amount, payee, and due date. Examples of determinable current liabilities include operating lines of credit, notes payable, accounts payable, sales taxes, unearned revenue, current maturities of long-term debt, and accrued liabilities such as property taxes, payroll, and interest.

2. ***Account for uncertain liabilities.*** Estimated liabilities exist, but their amount or timing is uncertain. As long as it is *likely* the company will have to settle the obligation, and the company can reasonably estimate the amount, the liability is recognized. Product warranties, customer loyalty programs, and gift cards result in liabilities that must be estimated. They are recorded either as an expense (or as a decrease in revenue) or a liability in the period when the sales occur. These liabilities are reduced when repairs under warranty or redemptions occur. Gift cards are a type of unearned revenue as they result in a liability until the gift card is redeemed. As some cards are never redeemed, it is necessary to estimate the liability and make adjustments.
A contingency is an existing condition or situation that is uncertain, where it cannot be known if a loss (and a related liability) will result until a future event happens, or does not happen. Under ASPE, a liability for a contingent loss is recorded if it is likely a loss will occur and the amount of the contingency can be reasonably estimated. Under IFRS, the threshold for recording the loss is lower. It is recorded if a loss is probable. Under ASPE, these liabilities are called contingent liabilities, and under IFRS, these liabilities are called provisions. If it is not possible to estimate the amount, these liabilities are only disclosed. They are not disclosed if they are unlikely.

3. ***Determine payroll costs and record payroll transactions.*** Payroll costs consist of employee and employer payroll costs. In recording employee costs, Salaries Expense is debited for the gross pay, individual liability accounts are credited for net pay. In recording employer payroll costs, Employee Benefits Expense is debited for the employer's share of CPP, EI, workers' compensation, vacation pay, and any other deductions or benefits provided. Each benefit is credited to its specific current liability account.

4. ***Prepare the current liabilities section of the balance sheet.*** The nature and amount of each current liability and contingency should be reported in the balance sheet or in the notes accompanying the financial statements. Traditionally, current liabilities are reported first and in order of liquidity. International companies sometimes report current liabilities on the lower section of the balance sheet and in reverse order of liquidity.

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5. ***Calculate mandatory payroll deductions (Appendix 10A).*** Mandatory payroll deductions include CPP, EI, and income taxes. CPP is calculated by multiplying pensionable earnings (gross pay minus the pay period exemption) by the CPP contribution rate. EI is calculated by multiplying insurable earnings by the EI contribution rate. Federal and provincial income taxes are calculated using a progressive tax scheme and are based on taxable earnings and personal tax credits. The calculations are very complex and it is best to use one of the CRA income tax calculation tools such as payroll deduction tables.

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TRUE-FALSE STATEMENTS

1. A liability is defined as a past obligation, arising from present events to make future payments of assets or services.

Answer: False

Bloomcode: Comprehension
Difficulty: Medium
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

2. A future commitment is NOT considered a liability unless a present obligation also exists.

Answer: True

Bloomcode: Knowledge
Difficulty: Medium
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

3. Liabilities with a known amount, payee and due date are often referred to as determinable liabilities.

Answer: True

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

4. An operating line of credit is a credit which is set up by a major supplier to assist the company with their purchases online.

Answer: False

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

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5. Collateral is usually required by a bank as protection in case the company is unable to repay the bank.

Answer: True

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

6. Money borrowed on a line of credit is normally borrowed on a long-term basis.

Answer: False

Bloomcode: Knowledge
Difficulty: Medium
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

7. A bank overdraft is the same as an operating line of credit.

Answer: False

Bloomcode: Knowledge
Difficulty: Medium
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

8. Bank overdrafts will require a journal entry at the end of the year to record the amount.

Answer: False

Bloomcode: Comprehension
Difficulty: Medium
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

9. Prime rate refers to the rate that banks charge their worst customers.

Answer: False

Bloomcode: Comprehension
Difficulty: Easy

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Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

10. A note payable will result in more security of the debt obligation for the creditor than an account payable.

Answer: True

Bloomcode: Comprehension
Difficulty: Medium
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

11. A note payable must be payable within one year.

Answer: False

Bloomcode: Comprehension
Difficulty: Medium
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

12. If a note payable is payable in a term longer than one year, it will be classified as a non-current liability.

Answer: True

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

13. A note payable must always have an interest rate attached to it.

Answer: False

Bloomcode: Knowledge
Difficulty: Medium
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

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

Answer: True

Bloomcode: Application
Difficulty: Medium
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

15. At its December 31, 2017 year end, Jamison Company recorded $200 interest payable on a $10,000, 3 month, 5% note payable. The company's financial statements will present notes payable of $10,200.

Answer: False

Bloomcode: Comprehension
Difficulty: Medium
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

16. Sales taxes apply to all sales.

Answer: False

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting
CPA: Taxation

17. It is NOT necessary to prepare an adjusting entry to recognize the current maturity of long-term debt.

Answer: True

Bloomcode: Comprehension
Difficulty: Medium
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

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

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Answer: False

Bloomcode: Knowledge
Difficulty: Medium
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

19. It is possible to have a prepaid property tax and a property tax expense payable recorded at the same time.

Answer: True

Bloomcode: Comprehension
Difficulty: Medium
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

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

Answer: False

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting
CPA: Taxation

21. During the month, a company sells goods for a total of $113,480, which includes HST of $13,480; therefore, the company should recognize $100,000 in Sales Revenues and $13,480 in Sales Tax Payable.

Answer: True

Bloomcode: Application
Difficulty: Easy
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting
CPA: Taxation

22. An estimated liability is a liability that is known to exist but whose amount and timing are uncertain.

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Answer: True

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

23. As long as it is likely the company will have to settle the obligation, and the company can reasonably estimate the amount, the liability is recognized.

Answer: True

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

24. Warranty liabilities are estimated based on actual warranty costs incurred to date.

Answer: False

Bloomcode: Knowledge
Difficulty: Medium
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

25. After the warranty liability has been established, the costs in the future will be recorded with a debit to Warranty Expense.

Answer: False

Bloomcode: Comprehension
Difficulty: Medium
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

26. Canadian Tire Money represents a liability to Canadian Tire.

Answer: True

Bloomcode: Comprehension
Difficulty: Medium
Learning Objective: Account for uncertain liabilities.

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Section Reference: Uncertain Liabilities
CPA: Financial Reporting

27. With a customer loyalty program, the cost of the program is usually shown as a sales discount and reported as a contra sales account.

Answer: False

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

28. When a company issues a gift card, the company will record the gift card in revenue in the period in which it is sold.

Answer: False

Bloomcode: Comprehension
Difficulty: Medium
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

29. Contingencies are events with certain outcomes.

Answer: False

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

30. Under IFRS, a provision is a liability of certain timing and amounts.

Answer: False

Bloomcode: Knowledge
Difficulty: Medium
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

31. Under ASPE, a contingent liability is defined as a liability that is contingent on the

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occurrence or non-occurrence of some future event.

Answer: True

Bloomcode: Knowledge
Difficulty: Medium
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

32. ASPE considers a liability to be a contingent liability as long as its ultimate existence depends on the outcome of a future event, even if the event is likely to occur.

Answer: False

Bloomcode: Knowledge
Difficulty: Medium
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

33. IFRS is generally regarded as having a higher threshold for recognizing liabilities.

Answer: False

Bloomcode: Comprehension
Difficulty: Hard
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

34. There are two types of payroll costs to a company: employee costs and employer costs.

Answer: True

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting

35. Gross pay, or earnings, is the total compensation earned by an employee.

Answer: True

Bloomcode: Comprehension
Difficulty: Easy

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Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting

36. Payroll deductions may be mandatory or voluntary.

Answer: True

Bloomcode: Comprehension
Difficulty: Medium
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting
CPA: Taxation

37. Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) contributions, employment insurance (EI), and personal income taxes are mandatory payroll deductions.

Answer: True

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting
CPA: Taxation

38. The employer incurs a payroll cost equal to the amount withheld from the employees' wages for personal income taxes.

Answer: False

Bloomcode: Comprehension
Difficulty: Medium
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting
CPA: Taxation

39. The higher the pay or earnings, the higher the amount of income taxes withheld.

Answer: True

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll

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CPA: Financial Reporting
CPA: Taxation

40. CPP is an example of a voluntary payroll deduction.

Answer: False

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting
CPA: Taxation

41. Gross pay is the amount of net pay less any deductions.

Answer: False

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting

42. Employer payroll costs would include an amount deducted from the individual for income taxes.

Answer: False

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting
CPA: Taxation

43. Workplace Health, Safety, and Compensation is a cost to both the employee and the employer.

Answer: False

Bloomcode: Comprehension
Difficulty: Medium
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting

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44. Each employer is required to pay an employee for sick days.

Answer: False

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting

45. Employer payroll costs will include both the gross wages of employees plus the employer costs of benefits.

Answer: True

Bloomcode: Comprehension
Difficulty: Medium
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting

46. Employers are required by law to remit the mandatory payroll deductions to Canada Revenue Agency on at least a monthly basis.

Answer: True

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting
CPA: Taxation

47. Under ASPE, current liabilities are the first category reported in the liability section of the Balance Sheet.

Answer: True

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Prepare the current liabilities section of the balance sheet.
Section Reference: Financial Statement Presentation
CPA: Financial Reporting

48. Current Liabilities are usually listed in order of liquidity.

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Answer: True

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Prepare the current liabilities section of the balance sheet.
Section Reference: Financial Statement Presentation
CPA: Financial Reporting

49. CPP and EI and income tax deductions are remitted to the CRA, usually on a quarterly basis.

Answer: False

Bloomcode: Comprehension
Difficulty: Medium
Learning Objective: Calculate mandatory payroll deductions (Appendix 10A).
Section Reference: Payroll Deductions
CPA: Financial Reporting
CPA: Taxation

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MULTIPLE CHOICE QUESTIONS

50. Most companies pay current liabilities
a) out of current assets.
b) by issuing interest-bearing notes payable.
c) by issuing common shares.
d) by creating non-current liabilities.

Answer: a

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

51. A determinable liability is one which
a) has uncertainty with the timing of the due date.
b) has uncertainty about the amount which is owed.
c) has a known payee.
d) has an amount which is due within one year.

Answer: c

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

52. A current liability is a debt that can reasonably be expected to be paid
a) within one year.
b) between 6 months and 18 months.
c) out of currently recognized revenues.
d) out of cash currently on hand.

Answer: a

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

53. An operating line of credit
a) is a non-current liability.

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b) is required by all companies.
c) helps companies manage temporary cash shortages.
d) is usually required by the bank in case a company is unable to repay a loan.

Answer: c

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

54. All of the following are definitely determinable liabilities EXCEPT
a) current maturities of long-term debt.
b) operating lines of credit.
c) a future commitment to purchase an asset.
d) accounts payable.

Answer: c

Bloomcode: Comprehension
Difficulty: Medium
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

55. Determinable liabilities involve no uncertainty about all of the following EXCEPT
a) the existence of the liability.
b) the amount of the liability.
c) the eventual payment of the liability.
d) all of the above involve no uncertainty with respect to the determinable liability.

Answer: d

Bloomcode: Comprehension
Difficulty: Medium
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

56. Operating line of credit borrowings usually
a) are credited to a note payable account.
b) are reported as a non-current liability.
c) are debited to the cash account and result in a current liability.
d) are required by all companies.

Answer: c

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Bloomcode: Comprehension
Difficulty: Medium
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

57. With an interest-bearing note, the amount of assets received upon issue of the note is generally
a) equal to the note's face value.
b) greater than the note's face value.
c) less than the note's face value.
d) equal to the note's maturity value.

Answer: a

Bloomcode: Comprehension
Difficulty: Medium
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

58. A note payable is in the form of
a) a contingency that is reasonably likely to occur.
b) a written promissory note.
c) an oral agreement.
d) a standing agreement.

Answer: b

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

59. The entry to record the proceeds upon issuing an interest-bearing note is
a) Interest Expense
   Cash
      Notes Payable
b) Cash
      Notes Payable
c) Notes Payable
      Cash
d) Cash
      Notes Payable
      Interest Payable

Answer: b

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Bloomcode: Comprehension
Difficulty: Medium
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

60. Algonquin Provincial Bank agrees to lend Grimwood Brick Company $80,000 on January 1. Grimwood Brick Company signs an $80,000, 9-month, 5% note. The entry made by Grimwood Brick Company on January 1 to record the proceeds and issue of the note is

a) Interest Expense	3,000	
Cash	77,000	
Notes Payable		80,000
b) Cash	80,000	
Notes Payable		80,000
c) Cash	80,000	
Interest Expense	3,000	
Notes Payable		83,000
d) Cash	80,000	
Interest Expense	3,000	
Notes Payable		80,000
Interest Payable		3,000

Answer: b

Bloomcode: Application
Difficulty: Medium
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

61. Algonquin Provincial Bank agrees to lend Grimwood Brick Company $80,000 on January 1. Grimwood Brick Company signs an $80,000, 9-month, 5% note. What is the adjusting entry required if Grimwood Brick Company prepares financial statements on June 30?

a) Interest Expense	2,000	
Interest Payable		2,000
b) Interest Expense	2,000	
Cash		2,000
c) Interest Payable	2,000	
Cash		2,000
d) Interest Payable	2,000	
Interest Expense		2,000

Answer: a

Bloomcode: Application
Difficulty: Medium
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities

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CPA: Financial Reporting

62. Algonquin Provincial Bank agrees to lend Grimwood Brick Company $80,000 on January 1. Grimwood Brick Company signs an $80,000, 9-month, 5% note. What entry will Grimwood Brick Company make to pay off the note and interest at maturity assuming that interest has been accrued to September 30?

a) Notes Payable	83,000	
Cash		83,000
b) Notes Payable	80,000	
Interest Payable	3,000	
Cash		83,000
c) Interest Expense	3,000	
Notes Payable	80,000	
Cash		83,000
d) Interest Payable	2,000	
Notes Payable	80,000	
Cash		82,000

Answer: b

Bloomcode: Application
Difficulty: Medium
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

63. 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.

Answer: c

Bloomcode: Comprehension
Difficulty: Hard
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

64. 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.

Answer: a

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Bloomcode: Comprehension
Difficulty: Medium
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

65. On October 1, Jacob's Auto Service borrows $75,000 from Provincial Bank on a $75,000, 3-month, 6% note. What entry must Jacob's Auto Service make on December 31 before financial statements are prepared?

a) Interest Payable	1,125	
Interest Expense		1,125
b) Interest Expense	4,500	
Interest Payable		4,500
c) Interest Expense	1,125	
Interest Payable		1,125
d) Interest Expense	1,125	
Notes Payable		1,125

Answer: c

Bloomcode: Application
Difficulty: Medium
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

66. On October 1, Jacob's Auto Service borrows $75,000 from Provincial Bank on a $75,000, 3-month, 6% note. The entry by Jacob's Auto Service to record payment of the note and accrued interest on January 1 is

a) Notes Payable	76,125	
Cash		76,125
b) Notes Payable	75,000	
Interest Payable	1,125	
Cash		76,125
c) Notes Payable	75,000	
Interest Payable	4,500	
Cash		79,500
d) Notes Payable	75,000	
Interest Expense	1,125	
Cash		76,125

Answer: b

Bloomcode: Application
Difficulty: Medium
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

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67. Interest expense on an interest-bearing note is
a) always equal to zero.
b) accrued over the life of the note.
c) only recorded at the time the note is issued.
d) only recorded at maturity when the note is paid.

Answer: b

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

68. 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

Answer: a

Bloomcode: Comprehension
Difficulty: Medium
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

69. HST (harmonized sales tax) collected by a retailer is recorded by
a) crediting HST Recoverable.
b) debiting HST Expense.
c) crediting HST Payable.
d) debiting HST Payable.

Answer: c

Bloomcode: Comprehension
Difficulty: Medium
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities

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CPA: Financial Reporting
CPA: Taxation

70. When HST is remitted to the Canada Revenue Agency, ___ is credited and ___ is debited.
a) Cash; HST Payable
b) Cash; Sales
c) HST Expense; Cash
d) HST Payable; Cash

Answer: a

Bloomcode: Comprehension
Difficulty: Medium
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting
CPA: Taxation

71. The amount of sales tax (GST and PST, or HST) collected by a retail store when making sales is
a) a miscellaneous revenue for the store.
b) a current liability.
c) not recorded because it is a tax paid by the customer.
d) will increase the profit of the company.

Answer: b

Bloomcode: Knowledge
Difficulty: Medium
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting
CPA: Taxation

72. Davis Company has a December 31 year end. The company received its property tax bill for 2017 on March 1, 2017. According to the bill, taxes of $24,000 for the year ended December 31, 2017 are due by April 30, 2017. On March 1, Davis will record property tax expense of
a) $4,000.
b) $8,000.
c) $12,000.
d) $24,000.

Answer: a

Bloomcode: Application
Difficulty: Medium
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities

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CPA: Financial Reporting

73. Davis Company has a December 31 year end. The company received its property tax bill for 2017 on March 1, 2017. According to the bill, taxes of $24,000 for the year ended December 31, 2017 are due by April 30, 2017. On April 30, 2017, Davis will record which of the following entries?
a) Dr. Cash; Cr. Property Tax Payable
b) Dr. Property Tax Payable; Dr. Prepaid Property Tax; Cr. Cash
c) Dr. Property Tax Expense; Cr. Property Tax Payable
d) Dr. Property Tax Expense; Cr. Cash

Answer: b

Bloomcode: Comprehension
Difficulty: Hard
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

74. Property taxes are generally based on
a) income before tax.
b) property values.
c) gross sales.
d) gross wages.

Answer: b

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

75. The current portion of long-term debt should
a) be paid immediately.
b) be reclassified as a current liability.
c) be classified as a non-current liability.
d) not be separated from the non-current portion of debt.

Answer: b

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

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76. Sales taxes collected by a retailer are expenses
a) of the retailer.
b) of the customers.
c) of the government.
d) that are not recognized by the retailer until they are submitted to the government.

Answer: b

Bloomcode: Comprehension
Difficulty: Medium
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting
CPA: Taxation

77. A retailer that collects sales taxes is acting as an agent for the
a) wholesaler.
b) customer.
c) taxing authority.
d) chamber of commerce.

Answer: c

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting
CPA: Taxation

78. Sales taxes collected by a retailer are reported as
a) a contingent loss.
b) revenues.
c) expenses.
d) current liabilities.

Answer: d

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting
CPA: Taxation

79. A cash register tape shows cash sales of $1,000 and HST of $130. The journal entry to record this information is
a) Cash.. 1,000

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Sales		1,000
b) Cash	1,130	
Sales Tax Revenue		130
Sales		1,000
c) Cash	1,000	
Sales Tax Expense	130	
Sales		1,130
d) Cash	1,130	
Sales		1,000
HST Payable		130

Answer: d

Bloomcode: Application
Difficulty: Medium
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting
CPA: Taxation

80. Jim's Pharmacy has collected $500 in HST during March. If sales taxes must be remitted to the Canada Revenue Agency monthly, what entry will Jim's Pharmacy make to show the March remittance?

a) HST Expense	500	
Cash		500
b) HST Payable	500	
Cash		500
c) HST Expense	500	
HST Payable		500

d) No entry required.

Answer: b

Bloomcode: Application
Difficulty: Medium
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting
CPA: Taxation

81. Examples of determinable current liabilities include all of the following EXCEPT
a) current maturities of long-term debt.
b) bank indebtedness from operating lines of credit.
c) unearned revenues.
d) contingencies.

Answer: d

Bloomcode: Knowledge

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Difficulty: Easy
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

82. A company has a negative (credit) balance in the Cash account at the end of the year. This amount can be called all of the following EXCEPT
a) bank indebtedness.
b) operating line of credit.
c) bank overdraft.
d) bank advances.

Answer: b

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

83. Fees accepted in advance from a client
a) are considered earned revenues.
b) increase income.
c) are recorded as liabilities.
d) have no impact on assets.

Answer: c

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

84. Unearned revenue is initially recognized with a
a) debit to cash and credit to revenue.
b) debit to cash and credit to unearned revenue.
c) debit to revenue and credit to cash.
d) debit to unearned revenue and credit to cash.

Answer: b

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

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85. Which of the following is NOT considered an estimated liability?
a) accrued wages
b) gift card promotions
c) warranties
d) customer loyalty programs

Answer: a

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

86. Bass Bay Marina had a customer loyalty program at its gas dock. For every litre of gasoline purchased, the customer would get a redemption award of $.015 which can be used to purchase products in the company's retail marine store. In July, the company sold 100,000 litres of gasoline. The entry to record the liability for the July sales would a $___ credit to ___.
a) $1,500; Redemption Reward Liability
b) $1,5000; Sales Discounts
c) $1,5000; Cash
d) $3,000; Cash

Answer: a

Bloomcode: Application
Difficulty: Medium
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

87. Bass Bay Marina had a customer loyalty program at its gas dock. For every litre of gasoline purchased, the customer would get a redemption award of $.015 which can be used to purchase products in the company's retail marine store. In July, the company sold 100,000 litres of gasoline. By the end of the August, customers redeemed 25,000 of the rewards. Bass Bay should make which of the following entries to record the redemption?

a) Cash..	375	
Redemption Reward Liability		375
b) Redemption Reward Liability	375	
Cash..		375
c) Cash..	375	
Redemption Reward Liability		375
d) Redemption Expense	375	
Cash..		375

Answer: b

Bloomcode: Application

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Difficulty: Medium
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

88. The accounting for warranty costs is based on the concept of matching expenses with revenues, which requires that the estimated cost of honouring warranty contracts should be recognized as an expense
a) when the product is brought in for repairs.
b) in the period in which the product was sold.
c) at the end of the warranty period.
d) only if the repairs are expected to be made within one year.

Answer: b

Bloomcode: Knowledge
Difficulty: Medium
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

89. Cameron Company sells 2,000 units of its product for $500 each in 2017. 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 $100 per unit. In 2017, warranty contracts are honoured on 40 units for a total cost of $4,000. What amount should Cameron Company accrue on December 31, 2017 for estimated warranty expense?
a) $6,000
b) $4,000
c) $2,000
d) $30,000

Answer: a

Bloomcode: Application
Difficulty: Medium
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

90. Cameron Company sells 2,000 units of its product for $500 each in 2017. 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 $100 per unit. In 2017, warranty contracts are honoured on 40 units for a total cost of $4,000. What amount will be reported on Cameron Company's balance sheet as Estimated Warranty Liability on December 31, 2017?
a) $4,000
b) $6,000
c) $2,000
d) cannot be determined

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Answer: c

Bloomcode: Application
Difficulty: Medium
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

91. Product warranties are promises made by the ___ to repair or replace the product if it is defective or does not perform as intended.
a) buyer
b) employees
c) manufacturer
d) government

Answer: c

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

92. Warranties are also known as
a) determinable liabilities.
b) customer loyalty programs.
c) contingencies.
d) guarantees.

Answer: d

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

93. Under the expense approach, the warranty liability is measured using
a) the estimated future cost of servicing the product warranty.
b) actual costs of past years repairs.
c) the estimated sales of past years.
d) the estimated future returns of products.

Answer: a

Bloomcode: Knowledge
Difficulty: Medium

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Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

94. The warranty liability account will be carried from year to year and will be increased by
a) current years repairs to non-warranty products.
b) current years estimated warranty expense.
c) prior years estimated warranty expense.
d) current years actual warrant expense.

Answer: b

Bloomcode: Comprehension
Difficulty: Medium
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

95. Loyalty programs are designed to
a) decrease sales.
b) increase inventory levels.
c) increase sales.
d) decrease cost of goods sold.

Answer: c

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

96. The Redemption Reward Liability account is reported as a
a) current asset.
b) contra sales account.
c) current liability.
d) non-current liability.

Answer: c

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

97. Under ASPE, a contingent liability must be accrued in the financial statements if

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a) it can be reasonably estimated and unlikely to occur.
b) it can be reasonably estimated and likely to occur.
c) it is likely to occur but cannot be reasonably estimated.
d) the amount of the potential loss is greater than the balance in the cash account.

Answer: b

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

98. Under ASPE, the following should NOT be disclosed in notes to the financial statements.
a) If the contingency is unlikely and the chance of occurrence is small.
b) If the contingency is likely but the amount of the loss cannot be reasonably estimated.
c) If the existence of the contingent liability is not determinable.
d) If the contingency is unlikely but it could have a substantial negative effect on the company's financial position.

Answer: a

Bloomcode: Knowledge
Difficulty: Medium
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

99. If a liability is dependent on a future event, it is called a
a) potential loss.
b) hypothetical loss.
c) probabilistic loss.
d) contingent loss.

Answer: d

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

100. Under ASPE, a contingency that is NOT likely to occur
a) should be disclosed in the financial statements.
b) must be accrued as a loss.
c) does not need to be disclosed unless the loss would result in a substantial negative effect on the company's financial position.
d) is recorded as a contingent loss.

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Answer: c

Bloomcode: Knowledge
Difficulty: Medium
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

101. Disclosure of a contingent loss is usually made
a) parenthetically, in the body of the balance sheet.
b) parenthetically, in the body of the income statement.
c) in a note to the financial statements.
d) in the management discussion section of the financial statement.

Answer: c

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

102. If it is likely that a company will lose a lawsuit and the amount can be reliably estimated then the company must
a) record the asset.
b) disclose only in the notes to the financial statements.
c) not record or disclose any information.
d) record the loss and the liability.

Answer: d

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

103. Under ASPE, a liability for a contingent loss is recorded if both of the following conditions are met
a) occurrence is high and amount cannot be estimated.
b) amount is reasonably estimated and occurrence is low.
c) occurrence is low and amount is determinable.
d) occurrence is high and amount can be reasonable estimated.

Answer: d

Bloomcode: Knowledge

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Difficulty: Medium
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

104. Under IFRS, a liability is recorded if the chance of occurrence is
a) likely.
b) probable.
c) unlikely.
d) undeterminable.

Answer: b

Bloomcode: Knowledge
Difficulty: Medium
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

105. Under ASPE, only ___contingent losses are recognized.
a) highly likely
b) probable
c) more likely than not
d) unlikely

Answer: a

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

106. Under IFRS, the term used for an uncertain liability is
a) contingent liability.
b) undeterminable liability.
c) provision.
d) estimated liability.

Answer: c

Bloomcode: Knowledge
Difficulty: Medium
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

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107. The following are general risk contingencies that can affect anyone who is operating a business and are not reported in the notes to the financial statements, EXCEPT
a) war.
b) strike.
c) lawsuit.
d) recession.

Answer: c

Bloomcode: Comprehension
Difficulty: Medium
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

108. Which of the following is NOT an example of an estimated liability?
a) contingencies
b) employee benefits
c) payroll deductions
d) warranties

Answer: c

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

109. Kenneth Mole Company sold $10,000 worth of luggage with a one-year warranty. The company estimates that 2% of the sales will result in warranty payout. Kenneth Mole Company should
a) recognize warranty expense at the time of sale.
b) recognize warranty expense at the time warranty work is performed.
c) recognize warranty expense and warranty liability at the time of sale.
d) recognize warranty expense at the time warranty work is performed and warranty liability at the time of sale.

Answer: c

Bloomcode: Knowledge
Difficulty: Medium
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

110. Payroll deductions are also frequently called
a) net payments.

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b) withholdings.
c) CPP contributions.
d) gross payments.

Answer: b

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting

111. The amount of income tax withheld from an individual's payroll is determined by three variables. Which one of the following is NOT a variable?
a) employees net pay
b) number of income tax deductions claimed by the employee
c) length of the pay period
d) employees gross pay

Answer: a

Bloomcode: Knowledge
Difficulty: Medium
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting
CPA: Taxation

112. Gross earnings
a) is the net compensation received by employees.
b) is the total wage cost for an employee.
c) excludes any bonuses paid to employees.
d) is the total compensation earned by an employee.

Answer: d

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting

113. The employer's share of personal income tax is ___ the employee's share.
a) higher than
b) lower than
c) equal to
d) Employers are not required to share in this cost.

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Answer: d

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting
CPA: Taxation

114. The employer's share of Canada Pension Plan is ___ the employee's share.
a) higher than
b) lower than
c) equal to
d) Employers are not required to share in this cost.

Answer: c

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting

115. Which one of the following payroll costs does NOT result in an expense for the employer?
a) CPP (Canada Pension Plan)
b) Federal and provincial personal income tax
c) Employment Insurance (EI)
d) QPP (Quebec Pension Plan)

Answer: b

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting
CPA: Taxation

116. Jill Cole's regular rate of pay is $10 per hour with one and one-half times her regular rate for any hours which exceed 44 hours per week. She worked 52 hours last week. Therefore, her gross wages were
a) $520.
b) $440.
c) $560.
d) $880.

Answer: c

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Bloomcode: Application
Difficulty: Easy
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting

117. Most companies are required by law to calculate overtime at
a) the worker's regular hourly wage.
b) 1.25 times the worker's regular hourly wage for hours over 42 per week.
c) 1.5 times the worker's regular hourly wage for hours over 44 per week.
d) 2.5 times the worker's regular hourly wage for hours over 37.5 per week.

Answer: c

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting

118. Ann Parks has worked 44 hours this week. Six of these 44 hours were on the weekend. Her regular hourly wage is $15 per hour with one and one-half times her regular rate for weekend work. What are Ann's gross wages for the week?
a) $660
b) $705
c) $990
d) $795

Answer: b

Bloomcode: Application
Difficulty: Medium
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting

119. The designated collection agency for payroll deductions is
a) the Canada Revenue Agency.
b) Employment Canada.
c) Health and Welfare Canada.
d) HRDC.

Answer: a

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll

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CPA: Financial Reporting
CPA: Taxation

120. The journal entry to record the payroll for a period will include a credit to Wages and Salaries Payable for the gross
a) amount less all payroll deductions.
b) amount of all paycheques issued.
c) pay less taxes payable.
d) pay less voluntary deductions.

Answer: a

Bloomcode: Knowledge
Difficulty: Medium
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting

121. Paid absences and post-employment benefits
a) are supplemental benefits for injured workers.
b) are rights to receive compensation for future absences when certain conditions of employment are met.
c) must be accrued for.
d) are paid to retired or terminated employees.

Answer: c

Bloomcode: Comprehension
Difficulty: Medium
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting

122. Post-retirement benefits consist of payments by employers to retired employees for
a) health care and life insurance only.
b) health care and pensions only.
c) life insurance and pensions only.
d) health care, life insurance, and pensions.

Answer: d

Bloomcode: Comprehension
Difficulty: Hard
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting

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123. The paid absence that is most commonly accrued is
a) voting leave.
b) vacation time.
c) maternity leave.
d) disability leave.

Answer: b

Bloomcode: Knowledge
Difficulty: Medium
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting

124. Berman Company has ten employees who each earn $180 per day. If they accumulate vacation time at the rate of 1.5 vacation days for each month worked, the amount of vacation benefits that should be accrued at the end of the month is
a) $180.
b) $1,800.
c) $2,700.
d) $270.

Answer: c

Bloomcode: Application
Difficulty: Easy
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting

125. A payroll register is used to
a) accumulate gross earnings for each pay period.
b) determine source deductions.
c) accumulate gross earnings, deductions, and net pay per employee for each pay period.
d) determine budgeted payroll detail.

Answer: c

Bloomcode: Knowledge
Difficulty: Medium
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting

126. The Workplace Health, Safety, and Compensation Plan
a) provides a bonus to workers who have no accidents.
b) is paid by the employee only.
c) provides supplemental benefits for workers injured on the job.

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d) provides supplemental benefits for workers injured on the job or at home.

Answer: c

Bloomcode: Application
Difficulty: Medium
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting

127. Post-employment benefits are payments made by
a) retired employees.
b) terminated employees.
c) employees.
d) employers.

Answer: d

Bloomcode: Knowledge
Difficulty: Medium
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting

128. On the income statement, employee benefits expense is combined with
a) sales revenue.
b) salaries and wages expense.
c) cost of goods sold.
d) employers benefits expense.

Answer: b

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting

129. For small employers with perfect payroll deduction records, withholdings must be reported and remitted to the government
a) monthly.
b) annually.
c) quarterly.
d) bi-weekly.

Answer: c

Bloomcode: Knowledge

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Difficulty: Easy
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting
CPA: Taxation

130. Following the end of a calendar year, an employer is required to provide each employee with
a) a personal income tax credits return (TD1).
b) a payroll register.
c) a statement of remuneration paid (T4).
d) a medical history form.

Answer: c

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting
CPA: Taxation

131. Employers are required to withhold income taxes from employees each pay period. Identify the variable that is NOT used to determine the amount withheld.
a) the employee's gross earnings
b) the size of the company the employee is working for
c) the number of credits claimed by the employee for himself, herself, spouse, and other dependents
d) the length of the pay period

Answer: b

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting
CPA: Taxation

132. The deduction that is paid equally by the employer and employee is the
a) federal income tax.
b) Workplace Health, Safety and Compensation Plan deduction.
c) Employment Insurance (EI) deduction.
d) Canada or Quebec Pension Plan deduction.

Answer: d

Bloomcode: Knowledge

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Difficulty: Easy
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting
CPA: Taxation

133. The employer should record payroll deductions as
a) current liabilities.
b) non-current liabilities.
c) employee advances receivable.
d) employee advances payable.

Answer: a

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting

134. The amount an employee earns before any deductions is referred to as
a) net pay.
b) net income.
c) taxable income.
d) gross pay.

Answer: d

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting

135. The relationship between current liabilities and current assets is
a) useful in determining income.
b) useful in evaluating a company's short-term debt paying ability.
c) called the matching principle.
d) useful in determining the amount of a company's long-term debt.

Answer: b

Bloomcode: Comprehension
Difficulty: Easy
Learning Objective: Prepare the current liabilities section of the balance sheet.
Section Reference: Financial Statement Presentation
CPA: Financial Reporting

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136. The relationship of current assets to current liabilities is used in evaluating a company's
a) profitability.
b) revenue-producing ability.
c) short-term debt paying ability.
d) long-range solvency.

Answer: c

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Prepare the current liabilities section of the balance sheet.
Section Reference: Financial Statement Presentation
CPA: Financial Reporting

137. Muffin Company issued a five-year, interest-bearing note payable for $50,000 on January 1, 2017. Each January the company is required to pay $10,000 on the note. How will this note be reported on the December 31, 2018 balance sheet?
a) Long-term debt, $50,000
b) Long-term debt, $40,000
c) Long-term debt, $30,000; Long-term debt due within one year, $10,000
d) Long-term debt of $40,000; Long-term debt due within one year, $10,000

Answer: c

Bloomcode: Application
Difficulty: Medium
Learning Objective: Prepare the current liabilities section of the balance sheet.
Section Reference: Financial Statement Presentation
CPA: Financial Reporting

138. Under ASPE, Current Liabilities are usually listed
a) after long-term debt on the balance sheet.
b) in order of liquidity on the balance sheet.
c) in order of maturity on the balance sheet.
d) in increasing order of magnitude on the balance sheet.

Answer: b

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Prepare the current liabilities section of the balance sheet.
Section Reference: Financial Statement Presentation
CPA: Financial Reporting

139. Current maturities of long-term debt
a) require an adjusting entry.
b) are optionally reported on the balance sheet.

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c) can be properly classified during balance sheet preparation, with no adjusting entry required.
d) are not considered to be current liabilities.

Answer: c

Bloomcode: Knowledge
Difficulty: Medium
Learning Objective: Prepare the current liabilities section of the balance sheet.
Section Reference: Financial Statement Presentation
CPA: Financial Reporting

140. The current portion of long-term debt
a) refers to the portion of long-term debt due within one year.
b) is separated from the long term portion for proper presentation.
c) must be disclosed on the statement of financial position.
d) all answers are correct.

Answer: d

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Prepare the current liabilities section of the balance sheet.
Section Reference: Financial Statement Presentation
CPA: Financial Reporting

141. On December 31, 2017, Indiglow Company has a five-year note payable of $450,000. Of that balance, $90,000 will be paid within one year from the balance sheet date. How much of the note payable should Indiglow Company report as a long term liability when they prepare the December 31, 2017 statement of financial position?
a) $360,000
b) $450,000
c) $90,000
d) $540,000

Answer: a

Bloomcode: Application
Difficulty: Easy
Learning Objective: Prepare the current liabilities section of the balance sheet.
Section Reference: Financial Statement Presentation
CPA: Financial Reporting

142. Employee contributions under the Canada Pension Act are 4.95% of pensionable earnings. Pensionable earnings deduct a basic yearly exemption of $3,500 and impose a maximum ceiling of $53,600. Marco earns $1,000 per week. What amount of CPP will be deducted each week from Marco's pay?
a) $49.50
b) $46.17

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c) $2,306.70
d) $44.36

Answer: b

Bloomcode: Application
Difficulty: Hard
Learning Objective: Calculate mandatory payroll deductions (Appendix 10A).
Section Reference: Payroll Deductions
CPA: Financial Reporting
CPA: Taxation

143. The employer is currently required to withhold a premium of 1.88% on insured earnings to a maximum earnings ceiling of $49,500. Dallas Reimer earns $1,000 per week. What amount of Employment Insurance (EI) will be deducted from Dallas's pay each week?
a) $18.80
b) $0
c) $839.97
d) $25.62

Answer: a

Bloomcode: Application
Difficulty: Medium
Learning Objective: Calculate mandatory payroll deductions (Appendix 10A).
Section Reference: Payroll Deductions
CPA: Financial Reporting
CPA: Taxation

144. The employer is currently required to pay a premium for Employment Insurance (EI) on pensionable earnings of
a) 1.88% to a maximum earnings ceiling of $ $49,500 times 1.4 the employee contribution.
b) 1.88% to a maximum earnings ceiling of $49,500.
c) 1.4% to a maximum earnings ceiling of $49,500.
d) 1.88%.

Answer: a

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Calculate mandatory payroll deductions (Appendix 10A).
Section Reference: Payroll Deductions
CPA: Financial Reporting
CPA: Taxation

145. Employees claim non-refundable credits for income tax withholding on
a) form (TD1).
b) form (T4).

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c) form (T1).
d) form (PD7A).

Answer: a

Bloomcode: Knowledge
Difficulty: Medium
Learning Objective: Calculate mandatory payroll deductions (Appendix 10A).
Section Reference: Payroll Deductions
CPA: Financial Reporting
CPA: Taxation

146. Self-employed individuals pay both the employees and the employers share of
a) CPP.
b) EI.
c) Income Taxes.
d) Union Dues.

Answer: a

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Calculate mandatory payroll deductions (Appendix 10A).
Section Reference: Payroll Deductions
CPA: Financial Reporting
CPA: Taxation

147. In most cases insurable earnings are
a) maximum earnings.
b) net earnings.
c) pensionable earnings.
d) gross earnings.

Answer: d

Bloomcode: Knowledge
Difficulty: Medium
Learning Objective: Calculate mandatory payroll deductions (Appendix 10A).
Section Reference: Payroll Deductions
CPA: Financial Reporting
CPA: Taxation

148. The higher the gross pay or earnings the
a) higher amount of taxes withheld.
b) lower amount of taxes withheld.
c) lower amount of pensionable earnings.
d) higher amount of pensionable earnings.

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Answer: a

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Calculate mandatory payroll deductions (Appendix 10A).
Section Reference: Payroll Deductions
CPA: Financial Reporting
CPA: Taxation

149. An employee receives a bi-weekly gross salary of $2,000. The employee’s deductions include income tax of $218, CPP of $92, EI of $37, and union dues of $50. The employer’s share of the deductions include CPP of $92 and EI of $52. What is the total amount of Salaries and Employee Benefits Expense that XYZ Corp. would record on its income statement as a result of the employee's bi-weekly salary?
a) $1,653
b) $2,000
c) $2,144
d) $2,347

Answer: c

Bloomcode: Application
Difficulty: Medium
Learning Objective: Calculate mandatory payroll deductions (Appendix 10A).
Section Reference: Payroll Deductions
CPA: Financial Reporting
CPA: Taxation

150. Ferris Party Rental has 10 employees who earned a total of $25,000 in November ($2,500 each). The applicable rates for CPP and EI are 4.95% and 1.88% respectively. Income tax withholdings amount to $6,600. The net pay of the 10 employees during November is
a) $16,837.
b) $16,693.
c) $25,000.
d) $23,293.

Answer: a

Bloomcode: Application
Difficulty: Medium
Learning Objective: Calculate mandatory payroll deductions (Appendix 10A).
Section Reference: Payroll Deductions
CPA: Financial Reporting
CPA: Taxation

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MATCHING QUESTIONS

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

A. Current liability
B. Notes Payable
C. Statement of Remuneration Paid (Form T4)
D. Sales taxes
E. Contingent liability
F. Federal and provincial income taxes, CPP and EI
G. Canadian Pension Plan (CPP)
H. Employment Insurance
I. Post-retirement benefits
J. Pension plan

151. An obligation in the form of a written promissory note ____

Answer: B

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting
CPA: Taxation

152. Taxes levied on sales to customers ____

Answer: D

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting
CPA: Taxation

153. A debt that can reasonably be expected to be paid from current assets ____

Answer: A

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting
CPA: Taxation

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154. A potential liability that may become an actual liability in the future ____

Answer: E

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting
CPA: Taxation

155. Levied on employees by the federal and provincial governments ____

Answer: F

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting
CPA: Taxation

156. An agreement whereby an employer provides benefits to employees after they retire ____

Answer: I

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting
CPA: Taxation

157. A payroll cost designed to provide income protection for a limited period of time to employees who are temporarily laid off ____

Answer: H

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting
CPA: Taxation

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158. A form showing employment income, CPP contributions, EI premiums, and income tax deducted for the year, in addition to other voluntary deductions ____

Answer: C

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting
CPA: Taxation

159. This plan provides supplementary disability, retirement, and death benefits to qualifying Canadians ____

Answer: G

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting
CPA: Taxation

160. Payments by employers to retired employees ____

Answer: J

Bloomcode: Knowledge
Difficulty: Easy
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting
CPA: Taxation

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CHAPTER 10

CURRENT LIABILITIES AND PAYROLL

CHAPTER LEARNING OBJECTIVES

1. ***Account for determinable or certain current liabilities.*** Liabilities are present obligations arising from past events, to make future payments of assets or services. Determinable liabilities have certainty about their existence, amount, and timing—in other words, they have a known amount, payee, and due date. Examples of determinable current liabilities include operating lines of credit, notes payable, accounts payable, sales taxes, unearned revenue, current maturities of long-term debt, and accrued liabilities such as property taxes, payroll, and interest.

2. ***Account for uncertain liabilities.*** Estimated liabilities exist, but their amount or timing is uncertain. As long as it is *likely* the company will have to settle the obligation, and the company can reasonably estimate the amount, the liability is recognized. Product warranties, customer loyalty programs, and gift cards result in liabilities that must be estimated. They are recorded either as an expense (or as a decrease in revenue) or a liability in the period when the sales occur. These liabilities are reduced when repairs under warranty or redemptions occur. Gift cards are a type of unearned revenue as they result in a liability until the gift card is redeemed. As some cards are never redeemed, it is necessary to estimate the liability and make adjustments.
   A contingency is an existing condition or situation that is uncertain, where it cannot be known if a loss (and a related liability) will result until a future event happens, or does not happen. Under ASPE, a liability for a contingent loss is recorded if it is likely a loss will occur and the amount of the contingency can be reasonably estimated. Under IFRS, the threshold for recording the loss is lower. It is recorded if a loss is probable. Under ASPE, these liabilities are called contingent liabilities, and under IFRS, these liabilities are called provisions. If it is not possible to estimate the amount, these liabilities are only disclosed. They are not disclosed if they are unlikely.

3. ***Determine payroll costs and record payroll transactions.*** Payroll costs consist of employee and employer payroll costs. In recording employee costs, Salaries Expense is debited for the gross pay, individual liability accounts are credited for net pay. In recording employer payroll costs, Employee Benefits Expense is debited for the employer's share of CPP, EI, workers' compensation, vacation pay, and any other deductions or benefits provided. Each benefit is credited to its specific current liability account.

4. ***Prepare the current liabilities section of the balance sheet.*** The nature and amount of each current liability and contingency should be reported in the balance sheet or in the notes accompanying the financial statements. Traditionally, current liabilities are reported first and in order of liquidity. International companies sometimes report current liabilities on the lower section of the balance sheet and in reverse order of liquidity.

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5. ***Calculate mandatory payroll deductions (Appendix 10A).*** Mandatory payroll deductions include CPP, EI, and income taxes. CPP is calculated by multiplying pensionable earnings (gross pay minus the pay period exemption) by the CPP contribution rate. EI is calculated by multiplying insurable earnings by the EI contribution rate. Federal and provincial income taxes are calculated using a progressive tax scheme and are based on taxable earnings and personal tax credits. The calculations are very complex and it is best to use one of the CRA income tax calculation tools such as payroll deduction tables.

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EXERCISES

Exercise 1
Leung Properties Co. paid $5,600 for property taxes in the 2016 calendar year. In 2017, Leung receives its property tax bill on May 1 for $6,200 which is payable on June 30, 2017.

Instructions
Calculate the prepaid or property taxes payable that Leung will report on its balance sheet if Leung's year end is
a) February 28, 2017
b) May 31, 2017
c) September 30, 2017
d) December 31, 2017

Solution 1 (10 min.)

a)	Property taxes payable ($5,600 x 2 ÷ 12).....................................	$ 933
b)	Property taxes payable ($6,200 x 5 ÷ 12).....................................	$ 2,583
c)	Prepaid property taxes ($6,200 x 3 ÷ 12)......................................	$ 1,550
d)	Both Prepaid property taxes and property taxes payable are	$ 0

Bloomcode: Application
Difficulty: Medium
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

Exercise 2
Chu Company billed its customers a total of $2,655,500 including HST of $305,500 for the month of November.

Instructions
Prepare the general journal entry to record the revenue and related liabilities for the month.

Solution 2 (5 min.)
Journal Entry:

Accounts Receivable..	2,655,500	
Sales Revenue		2,350,000
HST Payable		305,500

Bloomcode: Application
Difficulty: Easy
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting
CPA: Taxation

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Exercise 3

On April 1, Hoadley Company borrows $90,000 from Northwest Provincial Bank by signing a 6-month, 6%, interest-bearing note. Hoadley's year end is August 31.

Instructions

Prepare the following entries associated with the note payable on the books of Hoadley Company:

a) The entry on April 1 when the note was issued.

b) Any adjusting entries necessary on May 31 in order to prepare the quarterly financial statements. Assume no other interest-accrual entries have been made.

c) The adjusting entry at August 31 to accrue interest.

d) The entry to record payment of the note at maturity.

Solution 3 (10 min.)

a)	Apr 1	Cash	90,000	
		Notes Payable		90,000
b)	May 31	Interest Expense	900	
		Interest Payable		900
		($90,000 × 6% × 2 ÷ 12)		
c)	Aug 31	Interest Expense	1,350	
		Interest Payable		1,350
		($90,000 × 6% × 3 ÷ 12)		
d)	Oct 1	Notes Payable	90,000	
		Interest Payable ($900 + $1,350)	2,250	
		Interest Expense ($90,000 x 6% x 1 ÷ 12)	450	
		Cash		92,700

Bloomcode: Application
Difficulty: Medium
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

Exercise 4

On January 30, 2017, Titan Techniques gave Matzushibi Motors a 90-day, 8%, $80,000 note payable to extend a past due account payable. Titan has a March 31 year end.

Instructions

Prepare the year-end adjusting entry to accrue interest and record payment of the note on April 22, 2017.

Solution 4 (10 min.)

Mar 31	Interest expense	1,067	
	Interest payable		1,067

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(80,000 x 8% x2/12)

Apr 30	Interest expense	533	
	Interest payable	1,067	
	Note payable	80,000	
	Cash		81,600
	Interest expense = 80,000 x 8% x 1/12 = 533		

Bloomcode: Application
Difficulty: Medium
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

Exercise 5
Walters Accounting Company receives its annual property tax bill for the calendar year on May 1, 2018. The bill is for $32,000 and payable on June 30, 2018. Walters paid the bill on June 30, 2018. The company prepares quarterly financial statements and had initially estimated that its 2018 property taxes would be $30,000.

Instructions
Prepare all the required journal entries for 2018 related to the property taxes, including quarterly accruals.

Solution 5 (15 min.)

Mar 31	Property Tax Expense ($30,000 × 3 ÷ 12)	7,500	
	Property Tax Payable		7,500
Jun 30	Property Tax Expense ($32,000 × 6 ÷ 12 – $7,500)	8,500	
	Property Tax Payable	7,500	
	Prepaid Property Tax ($32,000 x 6 ÷ 12)	16,000	
	Cash		32,000
Sep 30	Property Tax Expense ($32,000 × 3 ÷ 12)	8,000	
	Prepaid Property Tax		8,000
Dec 31	Property Tax Expense ($32,000 × 3 ÷ 12)	8,000	
	Prepaid Property Tax		8,000

Bloomcode: Application
Difficulty: Medium
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting

Exercise 6
Elliott Company had the following transactions during March:

Mar 1 Purchased computer equipment by issuing a $16,000, 6-month, 6% note payable. Interest is due at maturity.

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Mar 5	Provided services to customers for $9,800 plus 13% HST; customers paid cash.		
Mar 15	Purchased supplies on account from Grand and Toy for $7,500. Supplier terms are 2/10, n/30.		
Mar 31	Paid the Grand and Toy account in full.		

Instructions

a) Record the transactions.

b) Record any adjusting entries required at March 31 related to these liabilities.

Solution 6 (5 min.)

a)

Mar 1	Computer Equipment	16,000	
	Note Payable (6 month)		16,000
Mar 5	Cash	11,074	
	HST Payable ($9,800 x 13%)		1,274
	Service Revenue		9,800
Mar 15	Supplies	7,500	
	Accounts Payable		7,500
Mar 31	Accounts Payable	7,500	
	Cash		7,500

b)

Mar 31	Interest Expense ($16,000 x 6% x 1 ÷ 12)	80	
	Interest Payable		80

Bloomcode: Application
Difficulty: Medium
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting
CPA: Taxation

Exercise 7

Harry Therapeutic Company is located in Leduc, Alberta and is a retailer of hair removal supplies. Beginning inventory is $45,000, and Harry uses the perpetual inventory system. Alberta has GST of 5%. The following transactions took place during the month of September:

Sep 4	Harry purchased $35,000 of merchandise from Laser Cosmetics Corp. on account.
Sep 10	Harry sells $66,000 of hair removal products to a customer on credit terms n/30. The merchandise cost $42,000.
Sep 17	Harry pays for the merchandise purchased on September 4.
Sep 20	Harry receives the amount due from the September 10 sale.
Sep 30	Harry remits the appropriate amount of GST to the government for the month of September.

Instructions

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Journalize the transactions above including 5% GST on normal purchases and sales.

Solution 7 (10 min.)

Sep 4	Merchandise inventory	35,000	
	GST payable (net)	1,750	
	Accounts payable		36,750
Sep 10	Accounts receivable—Laser	69,300	
	GST payable (net)		3,300
	Sales		66,000
Sep 10	Cost of Goods Sold	42,000	
	Merchandise inventory		42,000
Sep 17	Accounts payable	36,750	
	Cash		36,750
Sep 20	Cash	69,300	
	Accounts receivable		69,300
Sep 30	GST payable (net)	1,550	
	Cash		1,550

Bloomcode: Application
Difficulty: Easy
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
CPA: Financial Reporting
CPA: Taxation

Exercise 8

Miller Industrial 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 31 is a Friday. The employees of the company have been paid on Monday, December 27 for the previous week which ended on Friday, December 24. The company employs 30 people who earn $80 per day and 15 people who earn $120 per day. All employees work 5-day weeks.
3. Employees are entitled to one day's vacation for each month worked. All employees described above in 2. worked the month of December.
4. The company is a defendant in a $750,000 product liability lawsuit. Legal counsel believes the company probably will have to pay the amount requested.
5. On November 1, Fiddler signed a $10,000, 6-month, 8% note payable. No interest has been accrued to date.

Instructions

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

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Solution 8 (12 min.)

1. No entry—loss is not likely.

2. Wages Expense	21,000	
Wages Payable		21,000
30 × $80 × 5 = $12,000		
15 × $120 × 5 = 9,000		
$21,000		
3. Vacation Benefits Expense	4,200	
Vacation Benefits Payable [(30 × $80) + (15 × $120)]		4,200
4. Loss from Lawsuit	750,000	
Estimated Liability from Lawsuit		750,000
5. Interest Expense ($10,000 × 8% × 2 ÷ 12)	133	
Interest Payable		133

Bloomcode: Analysis
Difficulty: Hard
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting
CPA: Taxation

Exercise 9

During April 2017, Crowe Company incurred the following transactions. This is Crowe's first period of operations, and they plan to use the periodic method of accounting for inventory.

Apr	1	Purchased a new automobile for $36,500; the automobile was paid for with a 2-year 5% note payable. Interest is due monthly on the 1st day of each month and the principal due as follows: 50% due in 1 year, the remainder due in 2 years.
Apr	5	Sold merchandise to Customer A on account for $72,000 plus 13% HST; terms n/30.
Apr	6	Customer A returns one-half of the merchandise purchased on Apr 5 and receives a credit on account.
Apr	13	Customer A paid their account balance in full.
Apr	25	Sold merchandise to Customer B for $102,900 plus 13% HST; terms n/30.
Apr	28	Received $22,000 from Customer C for services to be provided in May.
Apr	30	Recorded any adjusting entries required related to April transactions.

In addition to liabilities arising from the above transactions, Crowe's Accounts Payable balance at April 30, 2017 is $65,000.

Instructions

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a) Record the above transactions.
b) Prepare the current liabilities portion of Crowe's balance sheet at April 30, 2017.

Solution 9 (25 min.)
a)

Apr	1	Automobile	36,500	
		Note Payable		36,500
Apr	5	Accounts Receivable—Customer A	81,360	
		HST Payable (72,000 x 13%)		9,360
		Sales Revenue		72,000
Apr	6	Sales Returns and Allowances ($72,000 x ½)	36,000	
		HST Payable ($9,360 x ½)	4,680	
		Accounts Receivable—Customer A		40,680
Apr	13	Cash ($81,360 – 40,680)	40,680	
		Accounts Receivable—Customer A		40,680
Apr	25	Accounts Receivable—Customer B	116,277	
		HST Payable (102,900 x 13%)		13,377
		Sales Revenue		102,900
Apr	28	Cash	22,000	
		Unearned Revenue		22,000
Apr	30	Interest Expense ($36,500 x 5% x 1 ÷ 12)	152	
		Interest Payable		152

b)

Crowe Company
Balance Sheet (partial)
April 30, 2017

Liabilities	
Current liabilities	
Accounts payable	65,000
HST Payable ($9,360 – 4,680 + 13,377)	18,057
Interest payable	152
Unearned revenue	22,000
Current portion of long term debt ($36,500 x ½)	18,250
Total current liabilities	$123,459

Bloomcode: Application
Difficulty: Hard
Learning Objective: Account for determinable or certain current liabilities.
Section Reference: Determinable (Certain) Current Liabilities
Learning Objective: Prepare the current liabilities section of the balance sheet.
Section Reference: Financial Statement Presentation
CPA: Financial Reporting

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CPA: Taxation

Exercise 10
During the month of July, Toys 4 U started a new promotion. The company offered to reward their customers for all sales made on Barbie dolls or Toy Trucks during the month of July. For each sale made, the customer will receive a 2% reward of the sales price which can be redeemed on future purchases until December of the current year. Toys R U estimates that 50% of the rewards will be redeemed. The stand-alone value of the rewards is $3,000. During the month of July, $150,000 of Barbie dolls and Toy Trucks were sold. There was $455 worth of redemptions in August.

Instructions
a) Prepare the journal entries to record all transactions related to the reward promotion.
b) Identify any liabilities that would be reported on the August 31, 2017 balance sheet.

Solution 10 (10 min.)

a) July 3	Cash	150,000	
	Sales		148,515*
	Unearned Revenue—Loyalty Program		1,485**

Stand-alone value of products sold- $150,000
Stand-alone value of loyalty points- 1,500

Total Value	$151,500	
* Allocation to Toy sales	($150,000/$151,500)* $150,000=	148,515
**Allocation to Loyalty program	($1, 500/$151,500)* $150,000 =	1,485

August 31	Unearned Revenue—Loyalty Program	455	
	Revenue—Loyalty Program		455

b) Unearned Reward—Loyalty Program ($1,500 – 455) $1,045

Bloomcode: Application
Difficulty: Medium
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

Exercise 11
Duane Herman sells exercise machines for home use. The machines carry a 4-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 $45 for labour and $75 for parts per unit. During 2018, 2,500 exercise machines 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. The opening balance in the Warranty Liability account is zero.

Instructions
a) Prepare the journal entry to record the repairs made under warranty.

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b) Prepare the journal entry to record the estimated warranty expense for the year. Determine the balance in the Warranty Liability account at the end of the year.

Solution 11 (10 min.)

a) Labour on repaired units: $45 × 60 = $2,700
Parts on repaired units: $75 × 60 = $4,500

Warranty Liability	7,200	
Repair Parts		4,500
Wages Payable		2,700
To record honouring of 60 warranty contracts		

b) 2,500 units × 6% = 150 units
150 units × ($45 + $75) = $18,000

Warranty Expense	18,000	
Warranty Liability		18,000
To record estimated cost of honouring 150 warranty contracts		

The balance in Warranty Liability at year end is $10,800 ($18,000 – $7,200), which equals the expected cost of honouring the 90 remaining warranty contracts.

Bloomcode: Application
Difficulty: Medium
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

Exercise 12

Far West Solutions sells residential freezers for $2,150 each. The price includes a two-year warranty. During 2017, the company sells 550 freezers. On the basis of past experience, the warranty costs are estimated to be $160 per freezer. The actual warranty costs paid by Far West during 2017 were $55,000.

Instructions

a) Prepare general journal entries to record the estimated warranty expense and the warranty payments during 2017**.**

b) Assuming the liability has an unadjusted credit balance of $4,300, what is the 2017 adjusted liability balance?

Solution 12 (5 min.)

a)

Warranty expense	88,000	
Warranty liability		88,000
(550 x $160 = $88,000)		
Warranty liability	55,000	
Cash		55,000

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b) Adjusted warranty liability balance = 4,300 + 88,000 – 55,000 = $37,300

Bloomcode: Application
Difficulty: Easy
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

Exercise 13
Sean Screen Manufacturing began operations in January 2017. Sean manufactures and sells two different computer monitors.

Monitor A, is a flat panel hi-definition monitor, which carries a two-year manufacturer's warranty against defects in workmanship. Sean's management project that 6% of the monitors will require repair during the first year of the warranty while approximately 8% will require repair during the second year of the warranty. Monitor A sells for $400. The average cost to repair a monitor is $80.

Monitor B is a regular LED monitor that retails for $150. Sean has entered into an agreement with a local electronics firm who charges Sean $20 per monitor sold and then covers all warranty costs related to this monitor.

Sales and warranty information for 2017 is as follows:
1. Sold 2,000 monitors (800 monitor A and 1,200 monitor B); all sales were on account.
2. Actual warranty expenditures for monitor A were $4,000.

Instructions
a) Prepare journal entries that summarize the sales and any aspects of the warranty for 2017.
b) Determine the balance in the Warranty Liability account at the end of 2017.

Solution 13 (10 min.)
a) To record sales

Accounts Receivable	500,000	
Sales Revenue—A (800 × $400)		320,000
Sales Revenue—B (1,200 × $150)		180,000
Related to the cost of the maintenance contract on monitor B		
Warranty Expense (1,200 × $20)	24,000	
Cash		24,000
To estimate cost of warranty on monitor A		
Warranty Expense (800 × 14% × $80)	8,960	
Warranty Liability		8,960
To record actual warranty costs on monitor A		
Warranty Liability	4,000	
Cash		4,000

b) $8,960 – $4,000 = $4,960

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Bloomcode: Application
Difficulty: Medium
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

Exercise 14
Canada Gas Works Ltd. has a customer rewards program. For every litre of gas Canada Gas Works sells, the customer is awarded one point. Each point is worth $0.10 off the purchase of future goods.

During the month of January, Canada Gas had gas sales of $172,000 and sold 144,000 litres of gas. Canada Gas estimates 60% of the points will be redeemed. During February, the actual value of the points redeemed is $7,250.

Instructions
a) Prepare the journal entry for the January sales..
b) Prepare the journal entryfor February reflecting the actual loyalty points redemption.

Solution 14 (10–13 min.)
a) <u>January Entries</u>

Cash	$172,000	
Sales	$163,733*	
Unearned Revenue- Loyalty Program		8,227**

Stand-alone value of gas sold-	$172,000
Stand-alone value of loyalty points- (144,000*$0.10*60%)	8,640
Total Value	$180,640

* Allocation to Gas sales ($172,000/$180,640)* $172,000= 163,733*
Allocation to Loyalty program ($8,640/$180,640)* $172,000 = 8,227

b) <u>February Entry</u>

Unearned Revenue—Loyalty Program	7,250	
Revenue—Loyalty Program...................................		7,250

Bloomcode: Application
Difficulty: Medium
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

Exercise 15
Dejong's Drycleaning had the following events occur during December, 2017: Dejong is reporting under ASPE.

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1. Dejong signed a $40,000 loan guarantee on behalf of Dejong Junior's. At December 31, Junior's had drawn $10,000 of loan advances. Junior's has sufficient assets to cover its liabilities.
2. Dejong was sued by an irate customer who said the trousers that Dejong had returned to him belonged to someone else. The customer is claiming $10,000,000 in damages for distress because he mistakenly wore the ill-fitting trousers to work and suffered discomfort and embarrassment as a result. Dejong's lawyer has advised them that the likelihood of this claim succeeding is nil, and has offered to defend them at no charge. The Dejongs have already paid the claimant $100 for replacement of the missing trousers.
3. Dejong was sued for wrongful dismissal by a former employee. The employee is claiming $2,000 in lost wages. Dejong's lawyer has advised them that the claim, if taken to trial, is likely to be upheld.
4. In early December, some drycleaning fluid spilled and damaged equipment valued at $5,600. Dejong replaced the equipment, which is insured, and expects their insurance policy will reimburse at least $5,000 of the cost and possibly the entire amount. However the exact amount covered by insurance has not yet been determined.

Instructions
For each of the four situations above, evaluate the likelihood and measurability of any losses that Dejong may face. Indicate if any liability should be recorded or disclosed in Dejong's December 31, 2017 financial statements.

Solution 15 (10 min.)
1. The loan guarantee results in a contingency that is highly measurable (both the approved and current loan balances are known) but is unlikely to occur. The guarantee should be disclosed, but not recorded as a liability.

2. The loss related to the lawsuit cannot be measured with any certainty. Common sense would suggest that if there were any loss over and above the $100 already paid, it would not be the $10,000,000 claimed by the plaintiff. In fact, since Dejong's have already paid for the missing garment, any further loss is likely to be minimal. Therefore measurement is very uncertain. The likelihood of any loss occurring is very low, based on the information provided by the lawyer. This item need not be either recorded or disclosed.

3. The contingency is highly measurable, since a specific amount has been claimed. It is likely to occur based on information provided by the lawyer. The liability of $2,000 should be recorded.

4. If a loss was recorded on the disposal of the original equipment then the insurance proceeds can be used to offset or eliminate this loss. Proceeds received in excess of this loss would represent a contingent and therefore should not be recorded. Since it is very likely that a settlement of some amount at least $5,000 will be received, Dejong should record the estimated proceeds as a recovery of the damaged equipment to the extent of the original loss. Specific note disclosure should also made in the notes to the financial statements.

Bloomcode: Evaluation
Difficulty: Medium
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities

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CPA: Financial Reporting

Exercise 16
Below are several accounting transactions recorded by Lucy, accounting clerk for B&B Industrial.

1. Loss from Liability $500,000
   Estimated Liability from Lawsuit $500,000
   To setup a liability in which we are being sued for $500,000. The lawyers say it is unlikely that we will have to pay out this amount and the lawsuit will most likely be dismissed. I have setup the amount based on the best reasonable estimate. Even if the lawsuit is dismissed this event will have a substantial negative effect on the company's financial position.
2. No entry
   B&B Industrial provided a guarantee on a loan for the company's owner. The owner needed to obtain a large loan for medical purposes. No entry needed to account for the loan guarantee.
3. No entry
   No entry needed to setup the reduction in wages that may be incurred due to employees going on strike.
4. Loss from decline in sales $150,000
   Sales Revenue $150,000
   To record the decline in sales due to a recession
5. Gain on Lawsuit $365,000
   Accounts Receivable $365,000
   To setup the amount that will be received when we win our lawsuit.
6. No Entry
   No entry created for a lawsuit that we will most likely lose because a reasonable amount cannot be estimated.

Instructions
For each transaction, determine if the accounting clerk correctly recorded the transaction. If you disagree, provide the correct transaction or disclosure requirement.

Solution 16

1. Incorrect. No entry should be created. It is recommended to reverse the current entry and disclose the lawsuit due to the fact that the event could have a substantial negative effect on the company's financial position.

2. Correct. No entry is needed, however a loan guarantee should be disclosed even if the chances of having to pay is small.

3. Correct. No entry or disclosure is required for general risk contingencies that can affect anyone who is operating a business, such as strike, war or recession.

4. Incorrect. No entry or disclosure is required for general risk contingencies that can affect anyone who is operating a business, such as strike, war or recession.

5. Incorrect. No entry can be created since contingent gains are never recorded. Note

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disclosure may be appropriate if B&B believes the amount of $365,000 is significant.

6. Correct. No entry will be recorded. Since the amount cannot be reasonably estimated it is only necessary to disclose the contingency in the notes to the financial statements.

Bloomcode: Analysis
Difficulty: Medium
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

Exercise 17
Amber Industries, a local concrete manufacturer, has encountered several situations during the 2017 fiscal year. The company follows ASPE. Identify whether each of the following possible contingencies should be recorded, disclosed, or not reported:

1. Amber is being sued by the municipality of Huntington for contaminating the town's primary water source. If Amber is found responsible, the company will be required to remedy the waterway. Amber's legal counsel believes there is a high likelihood that the company will be unsuccessful defending the suit. A specialist has estimated the restoration will cost between 1 million and 1.5 million.
2. Amber has guaranteed the debt of a related company in the amount of $2 million. The related company is currently in good financial health and is not intending to rely on Amber's guarantee.
3. Amber has a history of lawsuits and has been found liable at least once in each of the past 5 years. Although Amber has not been sued in the current year, management would like to record a $50,000 provision for future lawsuits which is the average payout over the past few years.
4. The government may expropriate Amber's assets so that a new highway can be built. So far, there have been no discussions about exact amount but the government has assured Amber that the proceeds will exceed the assets net book value.
5. Amber is being sued for $500,000 for wrongful dismissal of a company executive.

Solution 17 (10 min.)

1. Since it is likely that the company will lose and a reasonable amount can be estimated, a liability for a contingent loss is to be recorded.

2. Disclosure required.

3. No accrual or disclosure required as the transaction is not a result of a past event therefore it does not meet the definition of a liability.

4. There will be a gain on expropriation if the proceeds will exceed net book value. Contingent gains are never recorded. Disclosure would be appropriate considering the amount is likely significant.

5. If it is likely that the company will lose and the amount can be reasonably estimated, then this is recorded as a contingent liability; otherwise, just disclose.

Bloomcode: Analysis
Difficulty: Medium

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Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
CPA: Financial Reporting

Exercise 18
Milner Company is preparing adjusting entries at December 31. An analysis reveals the following:

1. During December, Milner Company sold 8,900 units of a product that carries a 60-day warranty. The sales for this product totalled $200,000. The company expects 5% of the units to need repair under the warranty and it estimates that the average repair cost per unit will be $30.
2. The company has been sued by a disgruntled employee. Legal counsel believes it is likely that the company will have to pay $150,000 in damages.
3. The company has been named as one of several defendants in a $350,000 damage suit. Legal counsel believes it is unlikely that the company will have to pay any damages.
4. During December, ten employees earn vacation pay at a rate of 1 day per month. Their average daily wage is $160 per employee.

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

Solution 18 (10 min.)

1. 8,900 units × 5% = 445 units expected to be defective.
445 units × $30 = $13,350

Warranty Expense	13,350	
Warranty Liability		13,350

2. An entry is required because the loss is likely and estimable.

Loss from Lawsuit	150,000	
Estimated Liability from Lawsuit		150,000

3. The loss is unlikely and does not require accrual or disclosure. No entry is required.

4. 10 employees × $160 × 1 day = $1,600.

Vacation Benefits Expense	1,600	
Vacation Benefits Payable		1,600

Bloomcode: Analysis
Difficulty: Medium
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting

Exercise 19
The following unadjusted balances are taken from the trial balance of Jackson Equipment at December 31, 2017:

Accounts payable	$ 53,700

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Salaries payable	2,200
Bank demand loan payable	60,000
HST payable	14,800
Note payable, maturing March 31, 2018	10,000
Note payable, maturing March 31, 2019	100,000

Jackson Equipment sells and installs security systems. Beginning on December 1, 2017, Jackson began offering a 2-year product warranty. Based on research in the industry, Jackson's management believes that 5% of security systems will require some warranty work and that the typical costs for systems requiring warranty work will be $875 during the first year and $325 during the second year. In December, Jackson supplied and installed 80 systems.

Instructions

a) Calculate and record Jackson's warranty liability at December 31, 2017.

b) Prepare the current liability portion of Jackson's balance sheet at December 31, 2017.

Solution 19 (12 min.)

a)

80 systems x 5% = 4 will require work.

Expected cost in first year (2018) = $875 x 4	$3,500
Expected cost in second year (2019) = $ 325 x 4	1,300
	$4,800

Entry to record:

Warranty Expense	4,800	
Warranty Liability		4,800

b)

Jackson Equipment
Balance Sheet (partial)
December 31, 2017

Liabilities	
Current liabilities	
Bank demand loan payable	$ 60,000
Accounts payable	53,700
Salaries payable	2,200
HST payable	14,800
Note payable due in one year	10,000
Current portion of warranty liability	3,500
Total current liabilities	$144,200

Bloomcode: Application
Difficulty: Hard
Learning Objective: Account for uncertain liabilities.
Section Reference: Uncertain Liabilities
Learning Objective: Prepare the current liabilities section of the balance sheet.
Section Reference: Financial Statement Presentation
CPA: Financial Reporting

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Exercise 20
Lawler Company's payroll for the week ending January 15 amounted to $52,000 for Office Salaries and $115,500 for Store Wages. The following deductions were withheld from employees' salaries and wages:

Federal and Provincial Income Taxes	$50,260
CPP	7,630
EI	3,300
Union Dues	2,950
United Way	1,500

Instructions
Prepare the journal entry to record the weekly payroll ending January 15 and also the employer’s benefits expense on the payroll.

Solution 20 (10 min.)

Jan	15	Office Salaries Expense	52,000	
		Store Wages Expense	115,500	
		Federal and Provincial Income Taxes Payable		50,260
		CPP Payable		7,630
		EI Payable		3,300
		Union Dues Payable		2,950
		United Way Payable		1,500
		Salaries and Wages Payable		101,860
		To record payroll for the week ending January 15		
	15	Employee Benefits Expense	12,250	
		CPP Payable		7,630
		EI Payable ($3,300 × 1.4)		4,620
		To record employer's benefits expense on January 15 payroll		

Bloomcode: Application
Difficulty: Easy
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting
CPA: Taxation

Exercise 21
The following payroll liability accounts are included in the ledger of the David Croneberger Company on January 1, 2018:

Income Taxes Payable	$4,700
CPP Payable	800
EI Payable	900
Union Dues Payable	400
Health Insurance Premium Payable (Liberty Health)	4,000
Canada Savings Bond Payable	1,000

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In January, the following transactions occurred:

Jan	9	Sent a cheque for $4,000 to Liberty Health.
	14	Sent a cheque for $400 to the union treasurer for union dues.
	15	Paid the Canada Revenue Agency income taxes withheld from employees, Employment Insurance due, and Canada Pension Plan contributions due.
	22	Sent a $1,000 cheque to the Bank of Canada for Canada Savings Bonds purchased on the payroll plan.

Instructions
Journalize the January transactions.

Solution 21 (15 min.)

Jan	9	Health Insurance Premium Payable	4,000	
		Cash		4,000
	14	Union Dues Payable	400	
		Cash		400
	15	Income Taxes Payable	4,700	
		EI Payable	900	
		CPP Payable	800	
		Cash		6,400
	22	Canada Savings Bond Payable	1,000	
		Cash		1,000

Bloomcode: Application
Difficulty: Easy
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting
CPA: Taxation

Exercise 22
The payroll records of Fraser Foods Company provide the following data for the bi-weekly pay period ended July 12.

Employee	Gross Pay	Gross Pay To Date	CPP	EI	Income Taxes	RRSP Deduction	Union Dues	Charitable Donations
Sally	$1,800	$56,000	$82.44	$33.84	$510	$150	$70	$70
Bobby	1,500	37,350	67.59	28.20	465	200	60	40
Curly	1,280	25,100	56.70	24.06	380	100	50	0

CPP is 4.95% and EI is 1.88%.

Instructions
a) What is the net pay for each employee?
b) Prepare the general journal entry to accrue the employee payroll on July 12.

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c) Prepare the general journal entry to record Jupiter's payroll tax expense for July 12.

Solution 22 (20 min.)

a)

Emp.	(a) Gross Pay	Gross Pay To Date	(b) CPP	(b) EI	(b) Inc. Taxes	(b) RRSP Ded.	(b) Union Dues	(b) Char Don	(c) (sum of b) Total Ded.'s	(a – c) Net Pay
Sally	$1,800	$56,000	$82.44	$33.84	$510	$150	$70	$70	$916.28	$883.72
Bobby	1,500	37,350	67.59	28.20	465	200	60	40	860.79	639.21
Curly	1,280	25,100	56.70	24.06	380	100	50	0	610.76	669.24
TOTAL	$4,580	$118,450	$206.73	$86.10	$1,355	$450	$180	$110	$2,387.83	$2,192.17

b)

			Debit	Credit
Jul	12	Salaries expense	4,580.00	
		CPP payable		206.73
		EI payable		86.10
		Income tax payable		1,355.00
		RPP payable		450.00
		Union dues payable		180.00
		Charitable donations payable		110.00
		Salaries payable		2,192.17

c)

			Debit	Credit
	12	Employee benefits expense	327.27	
		CPP payable		206.73
		EI payable (86.10 x 1.4)		120.54

Bloomcode: Application
Difficulty: Medium
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting
CPA: Taxation

Exercise 23

Draper Company has the following data for the weekly payroll ending March 31:

Employee	Hours Worked	Hourly Rate	CPP Deduction	EI Deduction	Income Tax Withheld	Health Insurance
A	48	$25	$58.54	$23.50	350.00	10.00
B	40	25	46.17	18.80	240.00	15.00
C	25	13	12.76	6.11	65.00	5.00
D	45	15	15.60	12.83	190.00	15.00
E	10	13	3.10	2.44	0.00	5.00

Employees are paid 1.5 times the regular hourly rate for all hours worked over 44 hours per week. Draper Company must make payments to the workers' compensation plan equal to 2% of the gross payroll. In addition, Ahmad matches the employees' health insurance contributions and accrues vacation pay at a rate of 4%.

Instructions

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a) Prepare the payroll register for the weekly payroll.
b) Record the payroll and Draper Company's employee benefits.

Solution 23 (20 min.)
a)

Employee	Gross Pay	CPP	EI	Income Taxes	Health Insurance	Total Deductions	Net Pay
A	$1,250.00	$58.54	$23.50	$350.00	$10.00	$442.04	$807.96
B	1,000.00	46.17	18.80	240.00	15.00	319.97	680.03
C	325.00	12.76	6.11	65.00	5.00	88.87	236.13
D	682.50	15.60	12.83	190.00	15.00	233.43	449.07
E	130.00	3.10	2.44	0.00	5.00	10.54	119.46
TOTAL	$3,387.50	$136.17	$63.68	$845.00	$50.00	$1,094.85	$2,292.65

		Debit	Credit
Mar 31	Salaries expense	3,387.50	
	CPP payable		136.17
	EI payable		63.68
	Income tax payable		845.00
	Health insurance payable		50.00
	Salaries payable		2,292.65

b)

		Debit	Credit
Mar 31	Employee benefits expense	478.57	
	CPP payable		136.17
	EI payable (63.68 x 1.4)		89.15
	Workers' compensation payable (3,387.50 x 2%)		67.75
	Health insurance payable		50.00
	Vacation payable (3,387.50 x 4%)		135.50

Bloomcode: Application
Difficulty: Medium
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting
CPA: Taxation

Exercise 24
Calgary Company prepares a payroll register for the week ending February 15. The totals from the register are presented below. (Note: for illustration purposes, there is only one employee.)

Earnings:		
Regular	$400.00	
Overtime	100.00	
Gross		$500.00
Deductions:		
CPP	$21.42	
EI	9.15	
Income Taxes	76.20	
United Way	10.00	
Union Dues	20.00	
Total		136.77
Paid:		

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Net Pay	$363.23

Accounts Debited:

Office Salaries Expense	500.00

Instructions
Prepare journal entries to record
a) the employee's portion of the payroll on February 15.
b) the employer's portion of the payroll on February 15.
c) payment of salaries and wages on February 15.
d) payment of payroll liabilities (excluding salaries and wages) on their respective due dates.

Solution 24 (20 min.)
a) The entry to record the employee's portion of the payroll is:

Feb 15	Office Salaries Expense	500.00	
	CPP Payable		21.42
	EI Payable		9.15
	Income Taxes Payable		76.20
	United Way Payable		10.00
	Union Dues Payable		20.00
	Salary and Wages Payable		363.23

b) The entry to record the employer's payroll costs is:

Feb 15	Employee Benefits Expense	34.23	
	CPP Payable ($21.42 × 1)		21.42
	EI Payable ($9.15 × 1.4)		12.81

c) The entry to record payment of salaries and wages is:

Feb 15	Salary and Wages Payable	363.23	
	Cash		363.23

d) The entry to pay other payroll liabilities (excluding salaries and wages) on their respective dates is:

CPP Payable ($21.42 + $21.42)	42.84	
EI Payable ($9.15 + $12.81)	21.96	
Income Tax Payable	76.20	
United Way Payable	10.00	
Union Dues Payable	20.00	
Cash		171.00

Bloomcode: Application
Difficulty: Medium
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
CPA: Financial Reporting
CPA: Taxation

***Exercise 25**
Assume that the payroll records of Crosby Oil Company provided the following information for

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the weekly payroll ended November 26, 2017:

Employee	Hours Worked	Hourly Pay Rate	Federal and Provincial Income Tax	Union Dues	Year-to-Date Earnings Through Previous Week
C. White	44	$30	$240	$9	$61,000
J. Wozowski	46	10	65	5	23,200
K. Hurt	39	14	0	—	5,100
M. Khan	42	22	169	7	58,100

Additional information:
All employees are paid overtime at time and a half for hours worked in excess of 44 per week.
The CPP rate is 4.95% less a basic annual exemption of $3,500 per employee.
The employment insurance deduction is 1.88%.
Maximum pensionable earnings are $53,600 and maximum insured earnings for EI are $49,500.

Instructions

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

Solution 25 (20 min.)
a)

Crosby Oil Company
Payroll Register
Week Ending November 26, 2017

		Earnings				Deductions			
Employee Pay	Total Hours	Reg.	Overtime	Gross Pay	Income Tax Payable	CPP(1)	EI(2)	Union	Net
C. White	44	$1,320	—	$1,320	$240	—	—	$ 9	$1,071.00
J. Wozowski	46	440	$30	470	65	$19.93	$ 8.84	5	371.23
K. Hurt	39	546	—	546	0	23.70	10.26	—	512.04
M. Kahn	42	924	—	924	169	—	—	7	748.00
		$3,230	$30	$3,260	$474	$43.63	$19.10	$21	$2,702.27

(1)

	Notes	CPP Deduction
C. White	- reached maximum pensionable earnings	0
J. Wozowski	[$470 – ($3,500 ÷ 52 weeks)] × .0495	19.93
K. Hurt	[$546 – ($3,500 ÷ 52 weeks)] × .0495	23.70
M. Kahn	- reached maximum pensionable earnings	0
CPP Payable		$43.63

(2)

	Notes	EI Premium
C. White	- reached maximum insurable earnings	$ 0
J. Wozowski	($470 × .0188)	8.84
K. Hurt	($546 × .0188)	10.26
M. Kahn	- reached maximum insurable earnings	0
EI Payable		$19.10

b)

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Nov	26	Wages Expense	3,260.00	
		Income Taxes Payable		474.00
		CPP Payable		43.63
		EI Payable		19.10
		Union Dues Payable		21.00
		Wages Payable		2,702.27
		To record weekly payroll		
	26	Employee Benefits Expense	70.37	
		CPP Payable		43.63
		EI Payable ($19.10 × 1.4)		26.74
		To record employer's benefits expense		

Bloomcode: Application
Difficulty: Hard
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
Learning Objective: Calculate mandatory payroll deductions (Appendix 10A).
Section Reference: Payroll Deductions
CPA: Financial Reporting

***Exercise 26**

Karen Blake's salary earned in 2017 to November 30 was $62,000. Her salary in December 2017 was $6,000. Jim Fayad began working with the company on December 1 and will be paid his first month's salary of $5,000 on December 31. Income tax withholding for December for each employee is as follows:

	Karen Blake	Jim Fayad
Federal and Provincial Income Tax	$1,920	$1,600

The following payroll tax rates are applicable:

CPP(1)	4.95%
EI	1.88%

(1)Less a basic annual exemption of $3,500 per employee

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. Maximum pensionable earnings are $53,600 and maximum insured earnings for EI are $49,500.

Solution 26 (15 min.)

Dec	31	Salaries Expense	11,000.00	
		Income Taxes Payable ($1,920 + 1,600)		3,520.00
		CPP Payable(2)		233.06
		EI Payable(3)		94.00
		Salaries Payable		7,152.94
		To record December 31 payroll		

<u>CPP Payable(2)</u>

Karen Blake (Karen has reached the maximum pensionable earnings)	$ 0.00
Jim Fayad(4) [($5,000 – ($3,500 ÷ 12months)) × .0495] =	233.06

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	$233.06

EI Payable[3]

Karen Blake (Karen has reached the maximum insured earnings).......	$ 0.00
Jim Fayad[4] ($5,000 × .0188)...	94.00
	$94.00

[4]As Jim Fayad started work December 1, his salary has not yet reached the maximum for CPP or EI calculation.

Employee Benefits Expense	364.66	
CPP Payable		233.06
EI Payable ($94.00 × 1.4)		131.60
To record employer's share of benefits for Dec. 31 payroll		

Bloomcode: Application
Difficulty: Medium
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
Learning Objective: Calculate mandatory payroll deductions (Appendix 10A).
Section Reference: Payroll Deductions
CPA: Financial Reporting

***Exercise 27**
Debbie Walker earns a salary of $5,500 per month during the year. Employment Insurance taxes (EI) are 1.88% of the first $49,500 in earnings. The Canadian Pension Plan (CPP) rate is 4.95% of the first $53,600 in earnings, less a basic annual exemption of $3,500. During the year, $23,000 was withheld for income taxes.

Instructions
a) Prepare a journal entry summarizing the payment of Walker's total salary during the year.
b) Prepare a journal entry summarizing the employer’s payroll tax expense on Walker's salary for the year.
c) Determine the cost of employing Walker for the year.

Solution 27 (10 min.)

a)	Salary Expense ($5,500 × 12)..	66,000.00	
	Income Taxes Payable		23,000.00
	CPP Payable [($53,600 – $3,500) × 4.95%]		2,479.95
	EI Payable ($49,500 × 1.88%)..		930.60
	Salary and Wages Payable		39,589.45
b)	Employee Benefits Expense	3,782.79	
	CPP Payable..		2,479.95
	EI Payable (930.60 × 1.4)..		1,302.84

c) The total cost of employment is: $66,000 + $3,782.79 = $69,782.79.

Bloomcode: Application
Difficulty: Hard

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Learning Objective: Determine payroll costs and record payroll transactions.
Learning Objective: Calculate mandatory payroll deductions (Appendix 10A).
Section Reference: Payroll
Section Reference: Payroll Deductions
CPA: Financial Reporting

***Exercise 28**
Harrison Company employees had the following earnings records at the end of August 2017:

Employee	Year-to-Date Earnings through Last Pay Period	Earnings for August 31 Pay Period (one week pay period)
L. Wilkins	$55,500	$672
J. Bird	31,200	425
L. Bryant	16,750	248
K. James	10,110	196
D. Irving	22,800	330

Harrison's payroll for each employee include: 4.95% CPP on the maximum pensionable earnings of $53,600, and an EI rate of 1.88% paid to a maximum of $49,500 annually. As well, $400 federal and provincial income taxes will be deducted from the combined employees' gross pay for the week.

Instructions
Prepare the journal entries to record
a) the August 31 payroll accrual.
b) the employer payroll tax expense for August 31.

Solution 28 (15 min.)

Employee	Salary	CPP (4.95%)	Calculation	EI (1.88%)	Calculation
L. Wilkins	$672.00	Exempt*		Exempt*	
J. Bird	425.00	17.71	425 – 67.31 x 4.95%	7.99	425 x 1.88%
L. Bryant	248.00	8.94	248 – 67.31 x 4.95%	4.66	248 x 1.88%
K. James	196.00	6.37	196 – 67.31 x 4.95%	3.68	196 x 1.88%
D. Irving	330.00	13.00	330 – 67.31 x 4.95%	6.20	330 x 1.88%
	$1,871.00	$46.02		$22.53	

*Wilkins has reached the maximum CPP and EI contributions for the year.
CPP weekly exemption per employee = $3,500 / 52 weeks = 67.31 per week

a)

Aug 31	Salaries expense	1,871.00	
	CPP payable		46.02
	EI payable		22.53
	Income tax payable		400.00
	Salaries payable		1,402.45

b)

Aug 31	Employee benefits expense	77.56	
	EI payable (22.53 x 1.4)		31.54

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	CPP payable		46.02

Bloomcode: Application
Difficulty: Medium
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
Learning Objective: Calculate mandatory payroll deductions (Appendix 10A).
Section Reference: Payroll Deductions
CPA: Financial Reporting

***Exercise 29**
The payroll records of Jupiter Company provide the following data for the weekly pay period ended June 17:

Employee	Gross Pay	Gross Pay To Date	Income Taxes	Medical Insurance	Union Dues	Charitable Donations
A	$860	$16,000	$310	$25	$20	$30
B	720	17,350	265	25	0	10
C	680	15,100	248	40	20	20

CPP is 4.95% and EI is 1.88%

Instructions
a) Prepare the general journal entry to accrue the employee payroll on June 17.
b) Prepare the general journal entry to record Jupiter's payroll tax expense for June 17.

Solution 29 (15 min.)
CPP weekly exemption = $3,500 / 52 weeks = $67.31 per week
a)

Jun 17	Salaries expense	2,260.00	
	CPP payable [2,260 – (67.31 x 3) x 0.0495]		101.87
	EI payable [2,260 x 0.0188]		42.49
	Income tax payable		823.00
	Medical insurance payable		90.00
	Union dues payable		40.00
	Charitable donations payable		60.00
	Salaries payable		1,102.64

b)

17	Employee benefits expense	161.35	
	CPP payable		101.87
	EI payable (42.49 x 1.4)		59.48

Bloomcode: Application
Difficulty: Medium
Learning Objective: Determine payroll costs and record payroll transactions.
Section Reference: Payroll
Learning Objective: Calculate mandatory payroll deductions (Appendix 10A).
Section Reference: Payroll Deductions

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CPA: Financial Reporting

Exercise 30

Gloria Company's December 31, 2017 trial balance includes the following accounts:

Accounts payable	$ 29,400
Accounts receivable	52,000
Interest payable	700
Bank demand loan payable	10,000
Cash	3,000
Income taxes payable	1,200
Inventory	27,000
Mortgage payable	140,000
Note payable	5,000
Prepaid expenses	1,200

Other information:

The mortgage payable is due in annual principal installments of $4,000 per year.
The note payable is due in full in 18 months' time.
Industry average working capital ratio is 2.5:1

Instructions

a) Prepare the current liabilities section of Gloria's December 31, 2017 balance sheet.
b) Calculate and comment on Gloria's working capital and current ratio.

Solution 30 (15 min.)

a)

Gloria Company
Balance Sheet (partial)
December 31, 2017

Liabilities
Current liabilities

Bank demand loan payable	$ 10,000
Accounts payable	29,400
Interest payable	700
Income taxes payable	1,200
Current portion of mortgage payable	4,000
Total current liabilities	$45,300

b)

Total current assets ($52,000 + 3,000 + 27,000 + 1,200)	$ 83,200
Less current liabilities	45,300
Working capital	$ 37,900

Current ratio ($83,200 ÷ $45,300) = 1.84

Calculating Gloria's working capital of $37,900 does not provide significant meaningful information since one cannot compare a monetary amount to those of companies of different sizes. By using a ratio such as the current ratio, one can compare Gloria to other companies

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and to the industry average. Although Gloria has a positive working capital, its current ratio is less than the industry average, suggesting Gloria has less liquidity than most of its competitors.

Bloomcode: Analysis
Difficulty: Medium
Learning Objective: Prepare the current liabilities section of the balance sheet.
Section Reference: Financial Statement Presentation
CPA: Financial Reporting
CPA: Taxation

Exercise 31
The following are all of the accounts with credit balances from Kupidy Company's adjusted trial balance at December 31, 2017:

Accounts payable	$ 66,000
Accumulated Depreciation – equipment	31,500
Allowance for doubtful accounts	1,600
Bank demand loan payable	25,000
C. Kupidy, capital	47,500
Gain on sale of equipment	600
HST payable	1,900
Interest payable	2,100
Mortgage payable	290,000
Note payable	18,000
Salaries payable	4,400
Sales discounts	3,750
Sales revenue	458,000
Unearned revenue	7,900

Other information:
The mortgage is due in monthly principal payments of $1,000 plus interest.
The note payable is a six-month, 10% note, interest due at maturity.

Instructions
Prepare the current liabilities section of Kupidy's December 31, 2017 balance sheet.

Solution 31 (10 min.)

Kupidy Company
Balance Sheet (partial)
December 31, 2017

Liabilities
Current liabilities

Bank demand loan payable	$ 25,000
Accounts payable	66,000
Interest payable	2,100
HST payable	1,900
Salaries payable	4,400

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Unearned revenue	7,900
Note payable	18,000
Current portion of mortgage payable ($1,000 x 12)	12,000
Total current liabilities	$137,300

Bloomcode: Analysis
Difficulty: Medium
Learning Objective: Prepare the current liabilities section of the balance sheet.
Section Reference: Financial Statement Presentation
CPA: Financial Reporting
CPA: Taxation

Exercise 32
On February 28, 2017, Fidanza Company has the following selected accounts after posting adjusting entries:

Accounts payable	$ 40,000
Notes payable, 3-month, 6%	80,000
Accumulated depreciation—equipment	14,000
Salary, wages, and benefits payable	22,000
Notes payable, 5-year, 8%	30,000
Warranty liability	34,000
Employee benefits expense	6,000
Interest payable	3,000
Mortgage payable	150,000
HST payable (net)	15,000

Instructions

a) Prepare the current liability section of Fidanza Company's balance sheet, assuming $25,000 of the mortgage is payable next year. (List liabilities in order of maturity.)

b) Comment on Fidanza's liquidity, assuming total current assets are $400,000.

Solution 32 (10 min.)
a)

Fidanza Company
Partial Balance Sheet
February 28, 2017

Current Liabilities	
Accounts payable	40,000
Salary, wages, and benefits payable	22,000
HST payable (net)	15,000
Interest payable	3,000
Warranty liability	34,000
Notes payable, 3-month	80,000
Current portion of Mortgage payable	25,000
Total Current Liabilities	$219,000

b) The liquidity position looks favourable. If all current liabilities are paid out of current assets,

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there would still be $181,000 of current assets. The current assets are almost twice the current liabilities, and it appears as though Fidanza Company has sufficient current resources to meet current obligations when due.

Bloomcode: Analysis
Difficulty: Medium
Learning Objective: Prepare the current liabilities section of the balance sheet.
Section Reference: Financial Statement Presentation
CPA: Financial Reporting
CPA: Taxation

Exercise 33
Mel's Building Centre has three obligations outstanding on December 31, 2017, as follows:

1. Six-year, $75,000, 5%, note payable issued on December 31, 2015. Mel's Building Centre is required to pay $12,500 plus interest on December 31 each year starting in 2016.
2. Five-year, $90,000, 4.5%, note payable issued on November 30, 2016. Mel's Building Centre is required to pay $1,500 plus interest at the end of each month starting on December 31, 2016.
3. Twenty-year, $600,000, 3.75%, mortgage payable issued on April 1, 2000. Mel's Building Centre is required to pay $2,500 plus interest at the end of each month starting on May 1, 2000.

Instructions
Calculate the amount of each note to be included in current and non-current liabilities on Mel's Building Centre December 31, 2017, balance sheet. Ignore interest.

Solution 33 (15 min.)

1. Note payable matures December 31, 2021, therefore the debt will be outstanding during entire 2017. Obligation balance at December 31, 2017 = $50,000 [75,000 – (12,500 x 2yrs)]
   Current portion = $12,500; Non-current portion = $37,500 (50,000 – 12,500)

2. Note payable matures November 30, 2021, therefore the debt will be outstanding during entire 2017. Obligation balance at December 31, 2017 = $70,500 [90,000 – (1,500 x 13mths)]
   Current portion = $18,000 (1,500 x 12mths); Non-current portion = $52,500 (70,500 – 18,000)

3. Mortgage payable matures April 1, 2020, therefore the debt will be outstanding during entire 2017. Obligation balance at December 31, 2017 = $70,000 [600,000 – (2,500 x 212mths)]
   Current portion = $30,000 (2,500 x 12mths); Non-current portion = $40,000 (70,000 – 30,000)

Bloomcode: Application
Difficulty: Medium
Learning Objective: Prepare the current liabilities section of the balance sheet.
Section Reference: Financial Statement Presentation
CPA: Financial Reporting
CPA: Taxation

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Exercise 34

Laabs Brewery has the following notes payable outstanding on October 31, 2017:

1. A five-year, 5%, $50,000 note payable issued on February 28, 2016. Laabs Brewery is required to pay $8,000 plus interest on February 28 each year starting in 2017.
2. A ten-month, 6%, $45,000 note payable issued on July 1, 2017. Interest and principal are payable at maturity.
3. A 30-month, 4%, $100,000 note payable issued on August 1, 2016. Laabs Brewery is required to pay $3,333.33 plus interest on the first day of each month starting on September 1, 2016.

Instructions

a) Calculate the current portion of each note payable.
b) Calculate the non-current portion of each note payable.
c) Calculate any interest payable at October 31, 2017.

Solution 34 (20 min.)

a)

1. Note payable is due February 28, 2021. Annual principal amount is $8,000 therefore this would be classified as the current portion.
2. The balance of the note (total obligation less current portion) would be considered the non-current portion = $50,000 – $8,000 = $42,000
3. Note payable balance from March 1, 2017 to October 31, 2017 = $42,000 (50,000 – 8,000)
   Accrued interest = $42,000 x 8/12 x 5% = $1,400

b)

1. Note payable is due in ten months (May 1, 2018) and since this is less than one year the entire note balance is classified as a current liability.
2. The entire note is considered a current liability
3. Accrued interest = $45,000 x 4/12 x 6% = $900

c)

1. Note payable is due February 1, 2019. Principle repayment = $3,333.33 per month x 12mths in fiscal 2018 = $40,000 would be classified as the current portion.
2. The balance of the note (total obligation less current portion) would be considered the non-current portion = $100,000 – $40,000 = $60,000
3. Note payable is repaid on the first of every month so there would be an interest accrual required at October 31, 2017 for one month of interest.
   Note payable balance at October 1, 2017 = $100,000 – ($3,333.33 x 14mths) = $53,333
   Accrued interest = $53,333 x 1/12 x 4% = $178

Bloomcode: Application
Difficulty: Hard
Learning Objective: Prepare the current liabilities section of the balance sheet.
Section Reference: Financial Statement Presentation
CPA: Financial Reporting
CPA: Taxation

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