

Chapter 011 Current Liabilities and Payroll Accounting

Summary of Questions by Difficulty Level (DL) and Learning Objective (LO)

True/False

Item	DL	LO	Item	DL	LO	Item	DL	LO
1.	Easy	C1	20.	Hard	C3	39.	Med	P3
2.	Easy	C1	21.	Easy	A1	40.	Med	P3
3.	Med	C1	22.	Med	A1	41.	Med	P3
4.	Med	C1	23.	Med	A1	42.	Hard	P3
5.	Med	C1	24.	Hard	A1	43.	Hard	P3
6.	Med	C1	25.	Hard	A1	44.	Med	P3
7.	Easy	C2	26.	Med	A1	45.	Easy	P4
8.	Easy	C2	27.	Easy	P1	46.	Med	P4
9.	Med	C2	28.	Easy	P1	47.	Med	P4
10.	Med	C2	29.	Med	P1	48.	Hard	P4
11.	Med	C2	30.	Med	P1	49.	Hard	P4
12.	Med	C2	31.	Easy	P2	50.	Easy	P5
13.	Easy	C3	32.	Easy	P2	51.	Easy	P5
14.	Easy	C3	33.	Easy	P2	52.	Easy	P5
15.	Easy	C3	34.	Med	P2	53.	Easy	P5
16.	Med	C3	35.	Easy	P3	54.	Easy	P5
17.	Med	C3	36.	Easy	P3	55.	Easy	P5
18.	Med	C3	37.	Easy	P3	56.	Med	P5
19.	Hard	C3	38.	Med	P3	57.	Med	P5

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Multiple Choice

Item	DL	LO	Item	DL	LO	Item	DL	LO
58.	Easy	C1	82.	Med	A1	106.	Easy	P3
59.	Easy	C1	83.	Med	A1	107.	Easy	P3
60.	Med	C1	84.	Easy	P1	108.	Med	P3
61.	Med	C1	85.	Easy	P1	109.	Med	P3
62.	Hard	C1	86.	Easy	P1	110.	Med	P3
63.	Easy	C2	87.	Med	P1	111.	Hard	P3
64.	Easy	C2	88.	Hard	P1	112.	Hard	P3
65.	Med	C2	89.	Hard	P1	113.	Hard	P3
66.	Med	C2	90.	Hard	P1	114.	Hard	P3
67.	Med	C2	91.	Easy	P2	115.	Easy	P4
68.	Med	C2	92.	Easy	P2	116.	Easy	P4
69.	Med	C2	93.	Easy	P2	117.	Easy	P4
70.	Med	C3	94.	Easy	P2	118.	Med	P4
71.	Easy	C3	95.	Med	P2	119.	Med	P4
72.	Med	C3	96.	Med	P2	120.	Hard	P4
73.	Med	C3	97.	Med	P2	121.	Med	P4
74.	Hard	C3	98.	Med	P5	122.	Hard	P4
75.	Hard	C3	99.	Med	P2	123.	Hard	P4
76.	Easy	A1	100.	Hard	P2	124.	Easy	P5
77.	Med	A1	101.	Hard	P2	125.	Med	P5
78.	Med	A1	102.	Easy	P5	126.	Med	P5
79.	Hard	A1	103.	Med	P5	127.	Med	P5
80.	Med	A1	104.	Med	P5	128.	Med	P5
81.	Hard	A1	105.	Med	P5	129.	Med	P5

Matching

Item	DL	LO	Item	DL	LO	Item	DL	LO
130.	Med	C1,C2, A1,P1- 5	132.	Med	C1	133.	Med	C1-C3
131.	Med	C1,C3 P2-P5						

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Short Essay

Item	DL	LO	Item	DL	LO	Item	DL	LO
134.	Med	C1	138.	Med	C5	142.	Med	P3
135.	Easy	C2	139.	Med	A1	143.	Easy	P4
136.	Hard	C3	140.	Med	P1	144.	Hard	P5
137.	Med	P5	141.	Med	P2			

Problems

Item	DL	LO	Item	DL	LO	Item	DL	LO
145.	Easy	A1	155.	Med	P1	164.	Med	P3
146.	Easy	A1	156.	Med	P1	165.	Easy	P4
147.	Med	A1	157.	Easy	P2	166.	Med	P4
148.	Med	A1	158.	Easy	P2	167.	Med	P4
149.	Med	A1	159.	Med	P2	168.	Med	P4
150.	Med	A1	160.	Med	P2	169.	Hard	P4
151.	Med	A1	161.	Med	P2,P3	170.	Hard	P5
152.	Med	P1	162.	Med	P2,P3	171.	Med	P2
153.	Med	P1	163.	Med	P2,P3	172.	Hard	P2,P3
154.	Med	P1						

Completion Problems

Item	DL	LO	Item	DL	LO	Item	DL	LO
173.	Easy	C1	180.	Med	P5	186.	Hard	P2
174.	Easy	C1	181.	Med	A1	187.	Med	P3
175.	Med	C2	182.	Easy	P1	188.	Easy	P4
176.	Med	C2	183.	Easy	P1	189.	Med	P4
177.	Med	C3	184.	Easy	P2	190.	Med	P5
178.	Hard	C3	185.	Easy	P2	191.	Easy	P5
179.	Med	P5						

Problems

Item	DL	LO	Item	DL	LO	Item	DL	LO
192.	Easy	C2	194.	Hard	P2,P3	196.	Easy	P3
193.	Med	C2	195.	Med	P1			

Chapter 011 Current Liabilities and Payroll Accounting

True / False Questions

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

TRUE

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: C1

2. Obligations not due within one year or the company's operating cycle, whichever is longer, are reported as current liabilities.

FALSE

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: C1

3. All expected future payments are liabilities.

FALSE

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C1

4. A single liability can be divided between current and noncurrent liabilities.

TRUE

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C1

Chapter 011 Current Liabilities and Payroll Accounting

5. A company can have a liability even if the amount of the obligation is unknown.

TRUE

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C1

6. A liability does not exist if there is any uncertainty about whom to pay, when to pay, or how much to pay.

FALSE

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C1

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

TRUE

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: C2

8. Unearned revenues is another name for sales.

FALSE

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: C2

Chapter 011 Current Liabilities and Payroll Accounting

9. Unearned revenues are liabilities.

TRUE

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C2

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

FALSE

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C2

11. Known liabilities are obligations set by agreements, contracts, or laws, and are measurable and definitely determinable.

TRUE

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C2

12. The Orlando Magic received \$6 million cash in advance season ticket sales. Prior to the beginning of the basketball season, these sales are recorded as a credit to unearned season ticket revenue.

TRUE

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C2

Chapter 011 Current Liabilities and Payroll Accounting

13. A contingent liability is a potential obligation that depends on a future event arising from a future transaction or event.

FALSE

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: C3

14. A lawsuit is an example of a contingent liability for the defendant.

TRUE

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: C3

15. Payroll taxes are contingent liabilities.

FALSE

AACSB: Reflective Thinking
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: C3

16. The full disclosure principle requires the reporting of contingent liabilities that are reasonably possible.

TRUE

AACSB: Communications
AICPA BB: Industry
AICPA FN: Risk Analysis
Difficulty: Medium
Learning Objective: C3

Chapter 011 Current Liabilities and Payroll Accounting

17. Uncertainties from the development of new competing products are contingent liabilities.

FALSE

AACSB: Communications
AICPA BB: Industry, Legal
AICPA FN: Risk Analysis
Difficulty: Medium
Learning Objective: C3

18. Debt guarantees are not disclosed because the guarantor is not the primary debtor.

FALSE

AACSB: Communications
AICPA BB: Industry, Legal
AICPA FN: Risk Analysis
Difficulty: Medium
Learning Objective: C3

19. Accounting for contingent liabilities covers three categories. (1) The future event is probable and the amount cannot be reasonably estimated. (2) The future event is remote or unlikely to recur. (3) The likelihood of the liability to occur is impossible.

FALSE

AACSB: Communications
AICPA BB: Industry, Legal
AICPA FN: Risk Analysis
Difficulty: Hard
Learning Objective: C3

20. A potential lawsuit claim is recorded when the claim can be reasonably estimated and it is reasonably possible.

FALSE

AACSB: Communications
AICPA BB: Industry, Legal
AICPA FN: Risk Analysis
Difficulty: Hard
Learning Objective: C3

Chapter 011 Current Liabilities and Payroll Accounting

21. A high value for the times interest earned ratio means that a company is a higher risk borrower.

FALSE

AACSB: Communications
AICPA BB: Industry, Legal
AICPA FN: Risk Analysis
Difficulty: Easy
Learning Objective: A1

22. Times interest earned can be calculated by multiplying income by the interest rate on a company's debt.

FALSE

AACSB: Communications
AICPA BB: Industry, Legal
AICPA FN: Risk Analysis
Difficulty: Medium
Learning Objective: A1

23. The times interest earned ratio is calculated by dividing income before interest expense and income taxes by interest expense.

TRUE

AACSB: Communications
AICPA BB: Industry, Legal
AICPA FN: Risk Analysis
Difficulty: Medium
Learning Objective: A1

24. Experience shows that when times interest earned falls below 1.5 to 2.0 and remains at that level or lower for several time periods, the default rate on liabilities increases sharply.

TRUE

AACSB: Analytic
AICPA BB: Industry, Legal
AICPA FN: Risk Analysis
Difficulty: Hard
Learning Objective: A1

Chapter 011 Current Liabilities and Payroll Accounting

25. When the times interest earned ratio declines, the likelihood of default on liabilities increases.

TRUE

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Risk Analysis
Difficulty: Hard
Learning Objective: A1

26. A company's income before interest expense and taxes is \$250,000 and its interest expense is \$100,000. Its times interest earned ratio is .4.

FALSE

$$\$250,000/\$100,000 = 2.5$$

AACSB: Analytic
AICPA BB: Industry, Legal
AICPA FN: Risk Analysis
Difficulty: Medium
Learning Objective: A1

27. A short-term note payable is a written promise to pay a specified amount on a definite future date within one year or the operating cycle, whichever is longer.

TRUE

AACSB: Communications
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Easy
Learning Objective: P1

28. Promissory notes are nonnegotiable meaning that they cannot be transferred from party to party.

FALSE

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: P1

Chapter 011 Current Liabilities and Payroll Accounting

29. A note payable can be used to extend the payment due on an account payable.

TRUE

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: P1

30. The matching principle requires that interest expense not be accrued on a note payable until the note is paid, even if the end of an accounting period occurs between the signing of a note payable and its maturity date.

FALSE

AACSB: Communications
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Medium
Learning Objective: P1

31. Gross pay is also called take-home pay.

FALSE

AACSB: Communications
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Easy
Learning Objective: P2

32. Social security payments consist of Social Security taxes and Medicare taxes.

TRUE

AACSB: Communications
AICPA BB: Legal
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: P2

Chapter 011 Current Liabilities and Payroll Accounting

33. Required employee payroll deductions include income taxes, Social Security taxes, pension and health contributions, union dues, and charitable giving.

FALSE

AACSB: Communications
AICPA BB: Legal
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: P2

34. The amount of federal income tax withheld depends on the employee's annual earnings rate and the number of withholding allowances claimed by the employee.

TRUE

AACSB: Communications
AICPA BB: Legal
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: P2

35. Employers must pay FICA taxes equal in amount to the FICA taxes withheld from their employees.

TRUE

AACSB: Communications
AICPA BB: Legal
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: P3

36. FUTA is the abbreviation for social security taxes.

FALSE

AACSB: Communications
AICPA BB: Legal
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: P3

Chapter 011 Current Liabilities and Payroll Accounting

37. Employers are required to pay local, state, and federal payroll taxes.

TRUE

AACSB: Communications
AICPA BB: Legal
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: P3

38. The state unemployment tax rates applied to an employer are adjusted according to an employer's merit rating.

TRUE

AACSB: Communications
AICPA BB: Legal
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: P3

39. A high merit rating means that an employer has high employee turnover or seasonal hiring.

FALSE

AACSB: Communications
AICPA BB: Legal
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: P3

40. Employers must keep certain payroll records, including individual earnings reports for each employee.

TRUE

AACSB: Communications
AICPA BB: Legal
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: P3

Chapter 011 Current Liabilities and Payroll Accounting

41. Federal depository banks are authorized to accept deposits of amounts payable to the federal government.

TRUE

AACSB: Communications
AICPA BB: Legal
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: P3

42. FUTA requires employers to pay a federal unemployment tax on the first \$7,000 in salary or wages paid to each employee.

TRUE

AACSB: Communications
AICPA BB: Legal
AICPA FN: Decision Making
Difficulty: Hard
Learning Objective: P3

43. The Form W-2 must be given to employees before January 31 following the year covered by the Form W-2.

TRUE

AACSB: Communications
AICPA BB: Legal
AICPA FN: Decision Making
Difficulty: Hard
Learning Objective: P3

44. Payments of FUTA are made quarterly to a federal depository bank if the total amount due exceeds \$1,000.

FALSE

AACSB: Communications
AICPA BB: Legal
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: P3

Chapter 011 Current Liabilities and Payroll Accounting

45. An estimated liability is a known obligation of an uncertain amount that can at least be reasonably estimated.

TRUE

AACSB: Communications

AICPA BB: Industry

AICPA FN: Measurement

Difficulty: Easy

Learning Objective: P4

46. Accrued vacation benefits are a form of estimated liability for an employer.

TRUE

AACSB: Communications

AICPA BB: Industry

AICPA FN: Measurement

Difficulty: Medium

Learning Objective: P4

47. Income tax liabilities are the same whether calculated by tax accounting methods or by financial accounting methods.

FALSE

AACSB: Communications

AICPA BB: Industry, Legal

AICPA FN: Measurement

Difficulty: Medium

Learning Objective: P4

48. A corporation has a \$42,000 credit balance in the Income Tax Payable account. Period end information shows that the actual liability is \$50,000. The company should record an entry to debit Income Tax Expense for \$8,000 and credit Income Taxes Payable for \$8,000.

TRUE

AACSB: Analytic

AICPA BB: Industry, Legal

AICPA FN: Measurement

Difficulty: Hard

Learning Objective: P4

Chapter 011 Current Liabilities and Payroll Accounting

49. A company performed warranty repair work for a customer that cost \$1,000. The journal entry to record the work should be a debit of \$1,000 to Warranty Expense and a credit of \$1,000 to Estimated Warranty Liability.

FALSE

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Hard
Learning Objective: P4

50. Employers can use a wage bracket withholding table to compute federal income taxes withheld from each employee's gross pay.

TRUE

AACSB: Communications
AICPA BB: Industry, Legal
AICPA FN: Measurement
Difficulty: Easy
Learning Objective: P5

51. Each employee records the number of withholding allowances claimed on form W-4, which is the withholding allowance certificate that is filed with the employer.

TRUE

AACSB: Communications
AICPA BB: Industry, Legal
AICPA FN: Measurement
Difficulty: Easy
Learning Objective: P5

52. Companies with many employees often use a special payroll bank account to pay employees.

TRUE

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: P5

Chapter 011 Current Liabilities and Payroll Accounting

53. A payroll register usually shows the pay period dates, hours worked, gross pay, deductions, and net pay of each employee for every pay period.

TRUE

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: P5

54. A payroll register is a cumulative record of an employee's hours worked, gross earnings, deductions, and net pay.

FALSE

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: P5

55. Payment of payroll is usually done by check or an electronic funds transfer.

TRUE

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: P5

56. An employee earnings report is a cumulative record of an employee's hours worked, gross earnings, deductions, and net pay.

TRUE

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: P5

Chapter 011 Current Liabilities and Payroll Accounting

57. When the number of withholding allowances increases, the amount of income tax withheld increases.

FALSE

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: P5

Multiple Choice Questions

58. The characteristics of a liability include:

- A. A past transaction or event.
- B. A present obligation.
- C. A future payment of assets or services.
- D. Both (a) and (b).
- E. All of these.**

AACSB: Communications
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Easy
Learning Objective: C1

59. Obligations due to be paid within one year or the company's operating cycle, whichever is longer, are:

- A. Current assets.
- B. Current liabilities.**
- C. Earned revenues.
- D. Operating cycle liabilities.
- E. Bills.

AACSB: Communications
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Easy
Learning Objective: C1

Chapter 011 Current Liabilities and Payroll Accounting

60. Obligations not expected to be paid within the longer of one year or the company's operating cycle are reported as:

- A. Current assets.
- B. Current liabilities.
- C. Long-term liabilities.**
- D. Operating cycle liabilities.
- E. Bills.

AACSB: Communications

AICPA BB: Industry

AICPA FN: Measurement

Difficulty: Medium

Learning Objective: C1

61. Liabilities involve addressing issues of:

- A. When to pay.
- B. Whom to pay.
- C. How much to pay.
- D. All of these.**
- E. Both (A) and (C) only.

AACSB: Communications

AICPA BB: Industry

AICPA FN: Measurement

Difficulty: Medium

Learning Objective: C1

62. Liabilities:

- A. Must be certain.
- B. Must sometimes be estimated.**
- C. Must be for a specific amount.
- D. Must always have a definite date for payment.
- E. Must involve an outflow of cash.

AACSB: Communications

AICPA BB: Industry

AICPA FN: Measurement

Difficulty: Hard

Learning Objective: C1

Chapter 011 Current Liabilities and Payroll Accounting

63. Known liabilities:

- A. Include accounts payable, notes payable, and payroll.
- B. Are obligations set by agreements, contracts, or laws.
- C. Are measurable.
- D. Are definitely determinable.
- E.** All of these.

AACSB: Communications
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Easy
Learning Objective: C2

64. Accounts payable:

- A.** Are amounts owed to suppliers for products and/or services purchased on credit.
- B. Are long-term liabilities.
- C. Are estimated liabilities.
- D. Do not include specific due dates.
- E. Must be paid within 30 days.

AACSB: Communications
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Easy
Learning Objective: C2

65. Amounts received in advance from customers for future products or services:

- A. Are revenues.
- B. Increase income.
- C.** Are liabilities.
- D. Are not allowed under GAAP.
- E. Require an outlay of cash in the future.

AACSB: Communications
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Medium
Learning Objective: C2

Chapter 011 Current Liabilities and Payroll Accounting

66. Sales taxes payable:
- A. Is an estimated liability.
 - B. Is a contingent liability.
 - C. Is a current liability for retailers.**
 - D. Is a business expense.
 - E. Is a long-term liability.

AACSB: Communications
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Medium
Learning Objective: C2

67. Unearned revenues are:
- A. Also called deferred revenues.
 - B. Amounts received in advance from customers for future delivery of products or services.
 - C. Also called collections in advance.
 - D. Also called prepayments.
 - E. All of these.**

AACSB: Communications
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Medium
Learning Objective: C2

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

AACSB: Communications
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Medium
Learning Objective: C2

Chapter 011 Current Liabilities and Payroll Accounting

69. Advance ticket sales totaling \$6,000,000 cash would be recognized as follows:

- A. Debit Sales, credit Unearned Revenue.
- B. Debit Unearned Revenue, credit Sales.
- C. Debit Cash, credit Unearned Revenue.**
- D. Debit Unearned Revenue, credit Cash.
- E. Debit Cash, credit Revenue Payable.

AACSB: Communications
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Medium
Learning Objective: C2

70. A contingent liability:

- A. Is always of a specific amount.
- B. Is a potential obligation that depends on a future event arising from a past transaction or event.**
- C. Is an obligation not requiring future payment.
- D. Is an obligation arising from the purchase of goods or services on credit.
- E. Is an obligation arising from a future event.

AACSB: Communications
AICPA BB: Industry
AICPA FN: Risk Analysis
Difficulty: Medium
Learning Objective: C3

71. Contingent liabilities can be:

- A. Probable.
- B. Remote.
- C. Reasonably possible.
- D. Estimable.
- E. All of these.**

AACSB: Communications
AICPA BB: Industry
AICPA FN: Risk Analysis
Difficulty: Easy
Learning Objective: C3

Chapter 011 Current Liabilities and Payroll Accounting

72. Contingent liabilities must be recorded if:

- A. The future event is probable and the amount owed can be reasonably estimated.
- B. The future event is remote.
- C. The future event is reasonably possible.
- D. The amount owed cannot be reasonably estimated.
- E. All of these.

AACSB: Communications
AICPA BB: Industry
AICPA FN: Risk Analysis
Difficulty: Medium
Learning Objective: C3

73. Debt guarantees:

- A. Are never disclosed in the financial statements.
- B. Are considered to be a contingent liability.
- C. Are a bad business practice.
- D. Are recorded as a liability even though it is highly unlikely that the original debtor will default.
- E. All of these.

AACSB: Communications
AICPA BB: Industry
AICPA FN: Risk Analysis
Difficulty: Medium
Learning Objective: C3

74. In the accounting records of a defendant, lawsuits:

- A. Are estimated liabilities.
- B. Should always be recorded.
- C. Should always be disclosed.
- D. Should be recorded if payment for damages is probable and the amount can be reasonably estimated.
- E. Should never be recorded.

AACSB: Communications
AICPA BB: Industry
AICPA FN: Risk Analysis
Difficulty: Hard
Learning Objective: C3

Chapter 011 Current Liabilities and Payroll Accounting

75. Uncertainties such as natural disasters:

- A. Are not contingent liabilities because they are future events not arising from past transactions or events.
- B. Are contingent liabilities because they are future events arising from past transactions or events.
- C. Should be disclosed because of their usefulness to financial statements.
- D. Are estimated liabilities because the amounts are uncertain.
- E. Arise out of transactions such as debt guarantees.

AACSB: Communications
AICPA BB: Industry
AICPA FN: Risk Analysis
Difficulty: Hard
Learning Objective: C3

76. The times interest earned ratio reflects:

- A. A company's ability to pay its operating expenses on time.
- B. A company's ability to pay interest even if sales decline.
- C. A company's profitability.
- D. The relation between income and debt.
- E. The relation between assets and liabilities.

AACSB: Communications
AICPA BB: Industry
AICPA FN: Risk Analysis
Difficulty: Easy
Learning Objective: A1

77. Fixed expenses:

- A. Create risk.
- B. Can be an advantage when a company is growing.
- C. Include interest expense.
- D. Do not fluctuate with changes in sales.
- E. All of these.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Risk Analysis
Difficulty: Medium
Learning Objective: A1

Chapter 011 Current Liabilities and Payroll Accounting

78. Times interest earned is calculated by:

- A. Multiplying interest expense times income.
- B. Dividing interest expense by income before interest expense.
- C. Dividing income before interest expense and income taxes by interest expense.**
- D. Multiplying interest expense by income before interest expense.
- E. Dividing income before interest expense by interest expense and income taxes.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Risk Analysis
Difficulty: Medium
Learning Objective: A1

79. If the times interest ratio:

- A. Increases, then risk increases.
- B. Increases, then risk decreases.**
- C. Is greater than 1.5, then the company is in default.
- D. Is less than 1.5, the company is carrying too little debt.
- E. Is greater than 1.5, the company is likely carrying too much debt.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Risk Analysis
Difficulty: Hard
Learning Objective: A1

80. A company's had fixed interest expense of \$6,000, its income before interest expense and any income taxes is \$18,000, and its net income is \$8,400. The company's times interest earned ratio equals:

- A. 0.33.
- B. 0.71.
- C. 1.40.
- D. 3.00.**
- E. 12,000.

$$\$18,000 / \$6,000 = 3.0 \text{ times}$$

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Risk Analysis
Difficulty: Medium
Learning Objective: A1

Chapter 011 Current Liabilities and Payroll Accounting

81. The times interest earned computation is:

- A.** (Net income + Interest expense + Income taxes)/Interest expense.
- B. (Net income + Interest expense - Income taxes)/Interest expense.
- C. (Net income - Interest expense - Income taxes)/Interest expense.
- D. (Net income - Interest expense + Income taxes)/Interest expense.
- E. Interest expense/(Net income + Interest expense + Income taxes expense).

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Risk Analysis
Difficulty: Hard
Learning Objective: A1

82. A company's income before interest expense and taxes is \$250,000 and its interest expense is \$100,000. Its times interest earned ratio is:

- A. 0.40
- B. 2.50**
- C. 1:2.5
- D. 2.5:1
- E. 0.50

$$\$250,000/\$100,000 = 2.5$$

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Risk Analysis
Difficulty: Medium
Learning Objective: A1

Chapter 011 Current Liabilities and Payroll Accounting

83. A company's fixed interest expense is \$8,000, its income before interest expense and income taxes is \$32,000. Its net income is \$9,600. The company's times interest earned ratio equals:

- A. 0.25.
- B. 0.30.
- C. 0.83.
- D. 3.33.
- E. 4.0.**

$$\$32,000/\$8,000 = 4.0 \text{ times}$$

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Risk Analysis
Difficulty: Medium
Learning Objective: A1

84. The difference between the amount received from issuing a note payable and the amount repaid is referred to as:

- A. Interest.**
- B. Principle.
- C. Face Value.
- D. Cash.
- E. Accounts Payable.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Risk Analysis
Difficulty: Easy
Learning Objective: P1

Chapter 011 Current Liabilities and Payroll Accounting

85. A short-term note payable:

- A.** Is a written promise to pay a specified amount on a definite future date within one year or the company's operating cycle, whichever is longer.
- B. Is a contingent liability.
- C. Is an estimated liability.
- D. Is not a liability until the due date.
- E. Cannot be used to extend the payment period for an account payable.

AACSB: Communications

AICPA BB: Industry

AICPA FN: Measurement

Difficulty: Easy

Learning Objective: P1

86. Short-term notes payable:

- A. Can replace an account payable.
- B. Can be issued in return for money borrowed from a bank.
- C. Are negotiable.
- D. Are an unconditional promise to pay.
- E.** All of these.

AACSB: Communications

AICPA BB: Industry

AICPA FN: Measurement

Difficulty: Easy

Learning Objective: P1

87. On December 1, Martin Company signed a 90-day, 6% note payable, with a face value of \$5,000. What amount of interest expense is accrued at December 31 on the note?

- A. \$0
- B.** \$25
- C. \$50
- D. \$75
- E. \$300

$$\$5,000 \times 0.06 \times 30/360 = \$25$$

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Measurement

Difficulty: Medium

Learning Objective: P1

Chapter 011 Current Liabilities and Payroll Accounting

88. On November 1, Carter Company signed a 120-day, 10% note payable, with a face value of \$9,000. What is the adjusting entry for the accrued interest at December 31 on the note?

- A. Debit interest expense, \$0; credit interest payable, \$0.
- B. Debit interest expense, \$100; credit interest payable, \$100.
- C. Debit interest expense, \$150; credit interest payable, \$150.**
- D. Debit interest expense, \$200; credit interest payable, \$200.
- E. Debit interest expense, \$300; credit interest payable, \$300.

$$\$9,000 \times .10 \times 60/360 = \$150$$

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Hard
Learning Objective: P1

89. On November 1, Carter Company signed a 120-day, 10% note payable, with a face value of \$9,000. What is the maturity value of the note on March 1?

- A. \$9,000
- B. \$9,100
- C. \$9,150
- D. \$9,200
- E. \$9,300**

$$\$9,000 \times .10 \times 120/360 = \$300 + \$9,000 = \$9,300$$

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Hard
Learning Objective: P1

Chapter 011 Current Liabilities and Payroll Accounting

90. On November 1, Carter Company signed a 120-day, 10% note payable, with a face value of \$9,000. Carter made the appropriate year-end accrual. What is the journal entry as of March 1 to record the payment of the note?

	Notes Payable.....	9,000	
	Interest Payable	150	
A.	Cash.....		9,150
	Cash.....	9,300	
B.	Notes Payable		9,300
	Notes Payable.....	9,300	
	Interest Expense		150
	Interest Payable		150
C.	Cash.....		9,000
	Notes Payable.....	9,000	
	Interest Expense	150	
	Interest Payable	150	
<u>D.</u>	Cash.....		9,300
	Notes Payable.....	9,000	
	Interest Expense	300	
E.	Cash.....		9,300

Interest accrued: $\$9,000 \times .10 \times 60/360 = \150

Interest earned during next year: $\$9,000 \times .10 \times 60/360 = \150

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Hard
Learning Objective: P1

91. Most employees and employers are required to pay:

- A. Local payroll taxes.
- B. State payroll taxes.
- C. Federal payroll taxes.
- D. Both b and c only.
- E.** All of these.

AACSB: Communications
AICPA BB: Industry, Legal
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: P2

Chapter 011 Current Liabilities and Payroll Accounting

92. Employers' responsibilities for payroll include:

- A. Providing each employee with an annual report of his or her wages subject to FICA and federal income taxes along with the amount of these taxes withheld.
- B. Filing Form 941, the Employer's Quarterly Federal Tax Return.
- C. Filing Form 940, the Annual Federal Unemployment Tax Return.
- D. Individual earnings records for each employee.
- E.** All of these.

AACSB: Communications
AICPA BB: Industry, Legal
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: P2

93. Gross pay is:

- A. Take-home pay.
- B.** Total compensation earned by an employee before any deductions.
- C. Salaries after taxes are deducted.
- D. Deductions withheld by an employer.
- E. The amount of the paycheck.

AACSB: Communications
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Easy
Learning Objective: P2

94. The employer should record payroll deductions as:

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

AACSB: Communications
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Easy
Learning Objective: P2

Chapter 011 Current Liabilities and Payroll Accounting

95. FICA taxes include:

- A. Social Security taxes.
- B. Charitable giving.
- C. Employee income taxes.
- D. Unemployment taxes.
- E. All of these.

AACSB: Communications
AICPA BB: Industry, Legal
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: P2

96. The amount of federal income taxes withheld from an employee's paycheck is determined by:

- A. The employee's annual earnings rate and number of withholding allowances.
- B. The employer's merit rating.
- C. The amount of social security taxes.
- D. Multiplying the gross pay by 6.2%.
- E. All of these.

AACSB: Communications
AICPA BB: Industry, Legal
AICPA FN: Measurement
Difficulty: Medium
Learning Objective: P2

97. Recording employee expenses for employers may involve:

- A. Liabilities to individual employees.
- B. Liabilities to federal and state governments.
- C. Liabilities to insurance companies.
- D. Liabilities to labor unions.
- E. All of these.

AACSB: Communications
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Medium
Learning Objective: P2

Chapter 011 Current Liabilities and Payroll Accounting

98. The Federal Insurance Contributions Act (FICA) requires that each employer file a:

- A. W-4.
- B. Form 941.**
- C. Form 1040.
- D. Form 1099.
- E. All of these.

AACSB: Communications
AICPA BB: Industry, Legal
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: P5

99. An employee earned \$47,000 during the year working for an employer. The FICA tax rate for social security is 6.2% and the FICA tax rate for Medicare is 1.45%. The employee's annual FICA taxes amount is:

- A. \$ 681.50.
- B. \$2,914.00.
- C. \$3,595.50.**
- D. \$7,191.00.
- E. Zero, since the employee's pay exceeds the FICA limit.

$$\$47,000 \times (.062 + .0145) = \$3,595.50$$

AACSB: Analytic
AICPA BB: Industry, Legal
AICPA FN: Measurement
Difficulty: Medium
Learning Objective: P2

Chapter 011 Current Liabilities and Payroll Accounting

100. Phildell Phoenix is paid monthly. For the month of January of the current year, he earned a total of \$8,288. The FICA tax for social security is 6.2% and the FICA tax rate for Medicare is 1.45%. The FUTA tax rate is 0.8%, and the SUTA tax rate is 5.4%. Both unemployment taxes are applied to the first \$7,000 of an employee's pay. The amount of federal income tax withheld from his earnings was \$1,375.17. His net pay for the month is:

- A. \$5,190.83
- B. \$5,844.79
- C. \$6,278.79**
- D. \$6,566.00
- E. \$6,792.64

FICA - Social security = $\$8,288 \times .062 = \$ 513.86$

FICA - Medicare = $\$8,288 \times .0145 = \$ 120.18$

Federal income tax \$1,375.17

Total deductions \$2,009.21

Net pay = $\$8,288 - \$2,009.21 = \$6,278.79$

AACSB: Analytic
AICPA BB: Industry, Legal
AICPA FN: Measurement
Difficulty: Hard
Learning Objective: P2

Chapter 011 Current Liabilities and Payroll Accounting

101. Phildell Phoenix is paid monthly. For the month of January of the current year, he earned a total of \$8,288. The FICA tax rate for social security is 6.2% and the FICA tax rate for Medicare is 1.45%. The FUTA tax rate is 0.8%, and the SUTA tax rate is 5.4%. Both unemployment taxes are applied to the first \$7,000 of an employee's pay. The amount of Federal Income Tax withheld from his earnings was \$1,375.17. What is the total amount of taxes withheld from the Phoenix's earnings?

- A. \$3,097.17
- B. \$2,443.21
- C. \$2,009.21**
- D. \$1,722.00
- E. \$1,495.36

FICA—social security	=	\$8,288 x .062	=	\$ 513.86
FICA—Medicare	=	\$8,288 x .0145	=	\$ 120.18
Federal income tax				<u>\$1,375.17</u>
Total taxes deducted				<u>\$2,009.21</u>

AACSB: Analytic
AICPA BB: Industry, Legal
AICPA FN: Measurement
Difficulty: Hard
Learning Objective: P2

102. The annual Federal Unemployment Tax Return is:

- A. Form 940.**
- B. Form 1099.
- C. Form 104.
- D. Form W-2.
- E. Form W-4.

AACSB: Communications
AICPA BB: Industry, Legal
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: P5

Chapter 011 Current Liabilities and Payroll Accounting

103. The Wage and Tax Statement is:

- A. Form 940.
- B. Form 941.
- C. Form 1040
- D.** Form W-2.
- E. Form W-4.

AACSB: Communications
AICPA BB: Industry, Legal
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: P5

104. A bank that is authorized to accept deposits of amounts payable to the federal government is a:

- A. Credit union.
- B. FDIC insured bank.
- C.** Federal depository bank.
- D. National bank.
- E. Federal Reserve Bank.

AACSB: Communications
AICPA BB: Industry, Legal
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: P5

105. An employer's federal unemployment taxes (FUTA) are reported:

- A.** Annually.
- B. Semiannually.
- C. Quarterly.
- D. Monthly.
- E. Weekly.

AACSB: Communications
AICPA BB: Industry, Legal
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: P5

Chapter 011 Current Liabilities and Payroll Accounting

106. A merit rating:

- A. Is assigned by the state.
- B. Reflects a company's stability or instability in employing workers.
- C. Adjusts the employer's SUTA tax rate.
- D. Affects state unemployment taxes paid by an employer.
- E.** All of these.

AACSB: Communications
AICPA BB: Industry, Legal
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: P3

107. Employer payroll taxes:

- A.** Are an added expense beyond the wages and salaries earned by employees.
- B. Represent the federal taxes withheld from employees.
- C. Represent the social security taxes withheld from employees.
- D. Are paid by the employee.
- E. All of these.

AACSB: Communications
AICPA BB: Industry, Legal
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: P3

108. Employers:

- A. Pay FICA taxes equal to the amount of FICA taxes withheld from the employees.
- B. Withhold employees' FICA taxes.
- C. Pay unemployment taxes to the federal government.
- D. Pay unemployment taxes to both the state and federal governments.
- E.** All of these.

AACSB: Communications
AICPA BB: Industry, Legal
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: P3

Chapter 011 Current Liabilities and Payroll Accounting

109. FUTA taxes are:

- A. Social Security taxes.
- B. Medicare taxes.
- C. Employee income taxes.
- D.** Unemployment taxes.
- E. Employee deductions.

AACSB: Communications
AICPA BB: Industry, Legal
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: P3

110. The unemployment insurance program:

- A. Is a joint federal-state program.
- B. Is administered by each state.
- C. Provides unemployment benefits to qualified workers.
- D. Adjusts rates paid by employers based on their merit rating.
- E.** All of these.

AACSB: Communications
AICPA BB: Industry, Legal
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: P3

Chapter 011 Current Liabilities and Payroll Accounting

111. The current FUTA tax rate is 0.8%, and the SUTA tax rate is 5.4%. Both taxes are applied to the first \$7,000 of an employee's pay. Assume that an employee earned \$8,900. What is the amount of total unemployment taxes the employer must pay on this employee's wages?

- A. \$322.00.
- B. \$434.00.**
- C. \$480.60.
- D. \$551.80.
- E. Zero, since the employee's wages exceed the maximum of \$7,000.

$$\$7,000 \times (.054 + .008) = \$434.00$$

AACSB: Analytic
AICPA BB: Industry, Legal
AICPA FN: Measurement
Difficulty: Hard
Learning Objective: P3

112. An employee earned \$4,300 working for an employer. The current rate for FICA social security is 6.2% and the rate for FICA Medicare 1.45%. The employer's total FICA payroll tax for this employee is:

- A. \$ 62.35.
- B. \$266.60.
- C. \$328.95.**
- D. \$657.90.
- E. Zero, since the FICA tax is a deduction from an employee's pay, and not an employer tax.

$$\$4,300 \times (.062 + .0145) = \$328.95$$

AACSB: Analytic
AICPA BB: Industry, Legal
AICPA FN: Measurement
Difficulty: Hard
Learning Objective: P3

Chapter 011 Current Liabilities and Payroll Accounting

113. An employee earned \$62,500 during the year working for an employer. The FICA tax rate for social security is 6.2% and the FICA tax rate for Medicare is 1.45%. The current FUTA tax rate is 0.8%, and the SUTA tax rate is 5.4%. Both unemployment taxes are applied to the first \$7,000 of an employee's pay. What is the amount of total unemployment taxes the employee must pay?

- A. \$101.50
- B. \$56.00
- C. \$378.00
- D. \$434.00
- E. \$0.00**

AACSB: Analytic
AICPA BB: Industry, Legal
AICPA FN: Measurement
Difficulty: Hard
Learning Objective: P3

114. Phildell Phoenix is paid on a monthly basis. For the month of January of the current year, he earned a total of \$8,288. FICA tax for social security is 6.2% and the FICA tax for Medicare is 1.45%. The FUTA tax rate is 0.8%, and the SUTA tax rate is 5.4%. Both unemployment taxes are applied to the first \$7,000 of an employee's pay. The amount of Federal Income Tax withheld from his earnings was \$1,375.17. What is the amount of the employer's annual payroll taxes expenses for this employee?

- A. \$56.00
- B. \$120.18
- C. \$378.00
- D. \$513.86
- E. \$1,068.04**

FICA—Social security	=	\$8,288 x .062	=	\$ 513.86
FICA—Medicare	=	\$8,288 x .0145	=	\$ 120.18
FUTA	=	\$7,000 x .008	=	\$ 56.00
SUTA	=	\$7,000 x .054	=	\$ 378.00
				<u>\$1,068.04</u>

AACSB: Analytic
AICPA BB: Industry, Legal
AICPA FN: Measurement
Difficulty: Hard
Learning Objective: P3

Chapter 011 Current Liabilities and Payroll Accounting

115. An estimated liability:

- A. Is an unknown liability of a certain amount.
- B. Is a known obligation of an uncertain amount that can be reasonably estimated.**
- C. Is a liability that may occur if a future event occurs.
- D. Can be the result of a lawsuit.
- E. Is not recorded until the amount is known for certain.

AACSB: Communications
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Easy
Learning Objective: P4

116. Estimated liabilities commonly arise from:

- A. Warranties.
- B. Vacation benefits.
- C. Income taxes.
- D. Employee benefits.
- E. All of these.**

AACSB: Communications
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Easy
Learning Objective: P4

117. Employees earn vacation pay at the rate of one day per month. During July, 25 employees qualify for one vacation day each. Their average daily wage is \$100 per day. What is the amount of vacation benefit expense for the month of July?

- A. \$25
- B. \$100
- C. \$1,200
- D. \$2,500**
- E. \$30,000

25 employees x \$100/day x 1 day vacation earned = \$2,500

AACSB: Communications
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Easy
Learning Objective: P4

Chapter 011 Current Liabilities and Payroll Accounting

118. Employee vacation benefits:

- A. Are estimated liabilities.
- B. Are contingent liabilities.
- C. Are recorded as an expense when the employee takes a vacation.
- D. Are recorded as an expense when the employee retires.
- E. Increase net income.

AACSB: Communications
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Medium
Learning Objective: P4

119. A company sold \$12,000 worth of trampolines with an extended warranty. It estimates that 2% of these sales will result in warranty work. The company should:

- A. Consider the warranty expense a remote liability since the rate is only 2%.
- B. Recognize warranty expense at the time the warranty work is performed.
- C. Recognize warranty expense and liability in the year of the sale.
- D. Consider the warranty expense a contingent liability.
- E. Recognize warranty liability when the company purchases the trampolines.

AACSB: Communications
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Medium
Learning Objective: P4

120. The deferred income tax liability:

- A. Represents income tax payments that are deferred until future years because of temporary differences between GAAP rules and tax accounting rules.
- B. Is a contingent liability.
- C. Can result in a deferred income tax asset.
- D. Is never recorded.
- E. Is recorded whether or not the difference between taxable income and financial accounting income is permanent or temporary.

AACSB: Communications
AICPA BB: Industry, Legal
AICPA FN: Measurement
Difficulty: Hard
Learning Objective: P4

Chapter 011 Current Liabilities and Payroll Accounting

121. A company estimates that warranty expense will be 4% of sales. The company's sales for the current period are \$185,000. The current period's entry to record the warranty expense is:

- | | | |
|---------------------------------------|-------|-------|
| Warranty Expense | 7,400 | |
| A. Sales | | 7,400 |
| Warranty Expense | 7,400 | |
| B. Estimated Warranty Liability | | 7,400 |
| Estimated Warranty Liability | 7,400 | |
| C. Estimated Warranty Expense | | 7,400 |
| Warranty Liability | 7,400 | |
| D. Cash | | 7,400 |
- E. No entry is recorded until the items are returned for warranty repairs.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Medium
Learning Objective: P4

122. A company sells computers at a selling price of \$1,800 each. Each computer has a 2 year warranty that covers replacement of defective parts. It is estimated that 2% of all computers sold will be returned under the warranty at an average cost of \$150 each. During November, the company sold 30,000 computers, and 400 computers were serviced under the warranty at a total cost of \$55,000. The balance in the Estimated Warranty Liability account at November 1 was \$29,000. What is the company's warranty expense for the month of November?

- A. \$26,000
B. \$45,000
C. \$55,000
D. \$60,000
E. \$90,000

$$\$30,000 \times .02 \times \$150 = \$90,000$$

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Hard
Learning Objective: P4

Chapter 011 Current Liabilities and Payroll Accounting

123. Maryland Company offers a bonus plan to its employees equal to 3% of net income. Maryland's net income is expected to be \$960,000. The amount of the employee bonus expense is estimated to be

- A. \$27,961
- B. \$28,800
- C. \$29,000
- D. \$29,691
- E. \$30,000

$$B = 0.03(\$960,000 - B)$$

$$B = \$28,800 - 0.03B$$

$$1.03 B = \$28,800$$

$$B = \$27,961$$

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Hard
Learning Objective: P4

124. A payroll register includes:

- A. Pay period dates.
- B. Hours worked.
- C. Gross pay and net pay.
- D. Deductions.
- E. All of these.

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: P5

Chapter 011 Current Liabilities and Payroll Accounting

125. The wage bracket withholding table is used to:

- A. Compute social security withholding.
- B. Compute Medicare withholding.
- C. Compute federal income tax withholding.**
- D. Prepare the W-4.
- E. All of these.

AACSB: Communications
AICPA BB: Industry, Legal
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: P5

126. The amount of federal income tax withheld from an employee's wages is based on:

- A. Wages earned.
- B. Number of withholding allowances.
- C. Number of hours worked.
- D. Both A and B.**
- E. Both B and C.

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: P5

127. A table that shows the amount of federal income tax to be withheld from an employee's pay is the:

- A. Form 941.
- B. Tax table.
- C. Wage bracket withholding table.**
- D. W-2.
- E. W-4.

AACSB: Communications
AICPA BB: Industry, Legal
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: P5

Chapter 011 Current Liabilities and Payroll Accounting

128. A special bank account used solely for the purpose of paying employees, by depositing in the account each pay period an amount equal to the total employees' net pay and drawing the employees' payroll checks on the account, is a(n):

- A. Federal depository bank account.
- B. Employee's Individual Earnings account.
- C. Employees' bank account.
- D. Payroll register account.
- E.** Payroll bank account.

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: P5

129. If a company uses a special payroll bank account:

- A. The company does not need to issue paychecks.
- B.** The company draws one check for the entire payroll on the regular bank account and deposits it in the payroll bank account.
- C. The company must use a federal depository bank for the payroll bank account.
- D. There is no need for a payroll register.
- E. There is no need to issue W-2's.

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: P5

Chapter 011 Current Liabilities and Payroll Accounting

Matching Questions

130. Match each of the following terms with the appropriate definitions.

1. Federal depository bank	Additional compensation paid to or on behalf of employees, such as premiums for medical insurance and contributions to pension plans. 4
2. Short-term note payable	A written promise to pay a specified amount on a definite future date within one year or the company's operating cycle, whichever is longer. 2
3. Times interest earned	A special bank account used solely for paying employees; each pay period an amount equal to the total employees' net pay is deposited and the employees' payroll checks are drawn on that account. 10
4. Employee benefits	A bank authorized to accept deposits of amounts payable to the federal government, including payroll taxes. 1
5. Gross pay	A record for a pay period that shows the pay period dates, regular and overtime hours worked, gross pay, net pay and deductions. 6
6. Payroll register	Total compensation earned by an employee. 5
7. Warranty	Income before interest expense and income taxes divided by interest expense. 3
8. Deferred income tax liability	A seller's obligation to repair or replace a product or service that fails to perform as expected within a specified period. 7
9. Current liabilities	Payments of income taxes that are deferred until future years because of temporary differences between GAAP and tax accounting rules. 8
10. Payroll bank account	Obligations due within one year or the company's operating cycle, whichever is longer. 9

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: A1
Learning Objective: C1
Learning Objective: C2
Learning Objective: P1
Learning Objective: P2
Learning Objective: P4
Learning Objective: P5

Chapter 011 Current Liabilities and Payroll Accounting

131. Match each of the following terms a through j with the appropriate definitions 1 through 10.

1. FUTA taxes	Payroll taxes on employers assessed by the federal government to support the federal unemployment insurance program. <u>1</u>
2. FICA taxes	A potential obligation that depends on a future event arising from a past transaction. <u>4</u>
3. Net pay	A rating assigned to an employer by a state based on the employer's past record regarding stable employment. <u>5</u>
4. Contingent liability	Obligations of a company not requiring payment within one year or the operating cycle, whichever is longer. <u>10</u>
5. Merit rating	Known obligations of an uncertain amount that can be reasonably estimated. <u>8</u>
6. Wage bracket withholding table	Gross pay less all deductions. <u>3</u>
7. Withholding allowance	A table of amounts of income tax to be withheld from employees' wages. <u>6</u>
8. Estimated liability	A seller's obligation to repair or replace a product or service that fails to perform as expected within a specified period. <u>9</u>
9. Warranty	A number that is used to reduce the amount of federal income tax withheld from an employee's pay. <u>7</u>
10. Long-term liability	Taxes assessed on both employer and employees under the Federal Insurance Contributions Act. These taxes fund Social Security and Medicare. <u>2</u>

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C1-C3
Learning Objective: P2-P5

Chapter 011 Current Liabilities and Payroll Accounting

132. Classify each of the following items as either:

- a. Current liability
- b. Long-term liability
- c. Not a liability

- | | |
|--|-------------|
| 1. Warranty work completed this year | a <u>7</u> |
| 2. Salaries payable | a <u>5</u> |
| 3. Payment of a 30-year term loan due this year | a <u>2</u> |
| 4. FICA taxes payable | c <u>8</u> |
| 5. Payment of a 4-year term loan due this year | a <u>4</u> |
| 6. Payment of a 30-year term loan due next year (The company's operating cycle is 2 months.) | a <u>9</u> |
| 7. 30-day promissory note | a <u>3</u> |
| 8. Debt guarantees | b <u>6</u> |
| 9. Income taxes payable | c <u>1</u> |
| 10. Accounts payable | a <u>10</u> |

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Medium
Learning Objective: C1

133. Classify each of the following items as either:

- a. Estimated liability
- b. Contingent liability
- c. Current liability that is neither a nor b

- | | |
|--|-------------|
| 1. Property taxes payable | b <u>9</u> |
| 2. Debt guarantees | a <u>6</u> |
| 3. Income taxes payable | c <u>5</u> |
| 4. Vacation benefits | a <u>3</u> |
| 5. Accounts payable | a <u>4</u> |
| 6. Warranty on products sold this year | c <u>7</u> |
| 7. Accrued wages payable | b <u>2</u> |
| 8. Unearned revenues | a <u>1</u> |
| 9. Lawsuit against the company | c <u>10</u> |
| 10. Payroll taxes payable | c <u>8</u> |

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Medium
Learning Objective: C1-C3

Chapter 011 Current Liabilities and Payroll Accounting

Short Answer Questions

134. Define liabilities and explain the difference between current and long-term liabilities.

Liabilities are probable future payments of assets or services a company is presently obligated to make as a result of past transactions or events. Current liabilities are obligations due within one year or the company's operating cycle, whichever is longer. Long-term liabilities are obligations due beyond one year or the company's operating cycle, whichever is longer.

AACSB: Communications
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Medium
Learning Objective: C1

135. What are known current liabilities? Cite at least two examples of known current liabilities.

Known current liabilities are obligations determined by agreements, contracts, or laws, and are measurable and definitely determinable. Known current liabilities include accounts payable, sales taxes payable, unearned revenues, and payroll liabilities.

AACSB: Communications
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Easy
Learning Objective: C2

136. Describe how to account for and report on contingent liabilities.

If an uncertain obligation depends on a probable future event arising from a past transaction and the amount is reasonably estimated, the payment is recorded as a liability. If the future event is remote, the item is not recorded or disclosed. If the future event is reasonably possible, the information about the contingent liability is disclosed in the notes to the financial statements.

AACSB: Communications
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Hard
Learning Objective: C3

Chapter 011 Current Liabilities and Payroll Accounting

137. Describe employer responsibilities for reporting payroll taxes. (To the extent possible, reference the form to be filed for each tax.)

Employers are required to report FICA taxes and federal income tax withholding to the federal government using Form 941. Federal unemployment taxes are reported annually on Form 940. Employers also have responsibilities to report state unemployment taxes. Annual earnings and deduction information are reported to each employee and to the federal government on Form W-2.

AACSB: Communications
AICPA BB: Industry, Legal
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: P5

138. Jason Osborn and Jason Wright of Feed Granola Company stress the importance of managing liabilities. What are some of the liabilities that the founders knew they would have to manage to be successful?

The two founders focused on the importance of managing liabilities for payroll, supplies, employee benefits, vacation, training, and taxes. Effective management of liabilities, especially payroll and employee benefits, is crucial to success. They also knew that cash flow was important and that effectively managing liabilities is an essential part of cash flow management.

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: C2

Chapter 011 Current Liabilities and Payroll Accounting

139. Explain how to calculate times interest earned. Explain how it is used to analyze a company's risk.

The times interest earned ratio is calculated by dividing a company's net income before interest expense and income taxes by interest expense. The ratio reflects a company's ability to pay interest and earn a profit for its owners against declines in sales. A low ratio indicates that the default risk on liabilities is high.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Risk Analysis
Difficulty: Medium
Learning Objective: A1

140. What is a short-term note payable? Explain the accounting issues related to notes payable.

A note payable is a written promise to pay a specified amount on a definite future date within one year or the company's operating cycle, whichever is longer. Short-term notes payable are negotiable, and can be transferred from party to party. Notes payable must be recorded on the date they are signed. When the note is paid, interest is paid in addition to the principal amount. If the end of the accounting period occurs between the signing of a note payable and its maturity date, the matching principle requires that accrued but unpaid interest be recorded.

AACSB: Communications
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Medium
Learning Objective: P1

Chapter 011 Current Liabilities and Payroll Accounting

141. Explain the responsibilities of and the accounting by employers for employee payroll deductions.

Employers are responsible for collecting employee federal income taxes and employee social security and Medicare taxes from employees. The employers record these amounts as current liabilities and send the amounts to the federal government to discharge their obligation. Payroll deductions can also include nontax items such as insurance and contributions to retirement plans. All payroll deductions are considered to be liabilities until the amounts are transmitted to the designated organization.

AACSB: Communications
AICPA BB: Industry, Legal
AICPA FN: Measurement
Difficulty: Medium
Learning Objective: P2

142. Identify and explain the types of employer payroll taxes.

Employers are required to make matching contributions for the amount of FICA taxes for Social Security and Medicare that are withheld from employees' pay. In addition, employers must contribute to both federal and state unemployment compensation programs. The federal program is called FUTA (Federal Unemployment Tax Act) and the state programs are called SUTA (State Unemployment Tax Act). The amount of unemployment tax that employers pay is based on their merit rating. The merit rating reflects a company's stability or instability in employing workers.

AACSB: Communications
AICPA BB: Industry, Legal
AICPA FN: Measurement
Difficulty: Medium
Learning Objective: P3

Chapter 011 Current Liabilities and Payroll Accounting

143. What are estimated liabilities? Cite at least two examples and explain why they are classified as estimated liabilities.

Estimated liabilities are known obligations of an uncertain amount that can be estimated. Warranties, income taxes, and employee benefits are common types of estimated liabilities. Warranties are estimated liabilities because the obligation to repair defective merchandise exists at the time of sale. The amount of potential warranty work can be estimated based on past sales. Employee benefits are generated as employees earn their wages. Amounts can be estimated based on contractual or past experience.

AACSB: Communications
AICPA BB: Industry, Legal
AICPA FN: Measurement
Difficulty: Easy
Learning Objective: P4

144. Identify and discuss the factors involved in computing federal income taxes for employees.

The amount of federal income tax withheld for each employee depends on (1) an employee's earnings level and (2) the number of withholding allowances claimed by the employee. This amount can be determined by using a wage bracket withholding table.

Difficulty: Hard
Learning Objective: P5

Problems

145. A company had income before interest expense and income taxes of \$176,000, and its interest expense is \$55,000. Calculate the company's times interest earned ratio.

$$\$176,000/\$55,000 = \underline{3.2}$$

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Risk Analysis
Difficulty: Easy
Learning Objective: A1

Chapter 011 Current Liabilities and Payroll Accounting

146. A company's income before interest expense and income taxes is \$302,400, and its interest expense is \$72,000. Calculate the company's times interest earned ratio.

$$\$302,400/\$72,000 = \underline{4.2}$$

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Risk Analysis
Difficulty: Easy
Learning Objective: A1

147. A company's income before interest expense and income taxes in 2008 and 2009 is \$225,000 and \$200,000, respectively. Its interest expense was \$45,000 for both years. Calculate the company's times interest earned ratio, and comment on its level of risk.

$$2008 \$225,000/45,000 = \underline{5}$$

$$2009 \$200,000/45,000 = \underline{4.4}$$

Risk analysis: The income before interest expense has decreased, but the interest expense appears fixed. Consequently, the company's risk has increased over the 2-year period.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Risk Analysis
Difficulty: Medium
Learning Objective: A1

148. A company's income before interest expense and income taxes in 2008 and 2009 is \$395,000 and \$427,000, respectively. Its fixed interest expense was \$125,000 for both years. Calculate the company's times interest earned ratio, and comment on its level of risk.

$$2008: \$395,000/\$125,000 = \underline{3.2}$$

$$2009: \$427,000/\$125,000 = \underline{3.4}$$

Risk analysis: The income before interest expense has increased, but the interest expense appears fixed. Consequently, the company's level of risk has decreased over the 2-year period. The company is improving on its ability to meet fixed interest expense.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Risk Analysis
Difficulty: Medium
Learning Objective: A1

Chapter 011 Current Liabilities and Payroll Accounting

149. Home Depot's income before interest expense and income taxes was \$5,909 million, and interest expense was \$37 million. Calculate Home Depot's times interest earned.

$$\$5,909/\$37 = 159.7$$

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Risk Analysis
Difficulty: Medium
Learning Objective: A1

150. Coke had income before interest expense and income taxes of \$5,698 million and interest expense of \$199 million. Calculate Coke's times interest earned.

$$\$5,698/\$199 = 28.6$$

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Risk Analysis
Difficulty: Medium
Learning Objective: A1

151. Wal-Mart had income before interest expense and income taxes of \$12,581 million and interest expense of \$1,063 million. Sears had income before interest expense and income taxes of \$3,596 million and interest expense of \$1,143 million. Calculate the times interest earned for each company and comment on the results.

$$\text{Wal-Mart times interest earned} = \$12,581/\$1,063 = 11.8$$

$$\text{Sears times interest earned} = \$3,596/\$1,143 = 3.1$$

Wal-Mart's times interest earned is almost four times that of Sears. Neither company appears to have a very high risk of default on debt, but Wal-Mart appears to have much lower risk than Sears.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Risk Analysis
Difficulty: Medium
Learning Objective: A1

Chapter 011 Current Liabilities and Payroll Accounting

152. On November 1, 2008, Bob's Skateboards Store signed a \$12,000, 90-day, 5% note payable to cover a past due account payable.

- What amount of interest expense on this note should Bob's Skateboards Store report on December 31, 2008?
- Prepare Bob's journal entry to record the issuance of the note payable.
- Prepare Bob's journal entry to record the payment of the note on February 1, 2008.

a. Interest expense = $\$12,000 \times 0.05 \times 60/360 = \100

b.	11/1/08	Accounts payable	12,000	
		Notes payable		12,000
c.	2/1/09	Notes payable	12,000	
		Interest payable	100	
		Interest expense ($\$12,000 \times 0.05 \times 30/360$)	50	
		Cash		12,150

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Medium
Learning Objective: P1

Chapter 011 Current Liabilities and Payroll Accounting

153. On June 1, 2008, Martin Company signed a \$25,000, 120-day, 6% note payable to cover a past due account payable.

- What is the total amount of interest to be paid on this note?
- Prepare Martin Company's general journal entry to record the issuance of the note payable.
- Prepare Martin Company's general journal entry to record the payment of the note on September 29, 2008.

a. $\$25,000 \times 0.06 \times 120/360 = \500

b.	6/1/08	Accounts payable.....	25,000	
		Notes payable.....		25,000
c.	9/29/08	Notes payable.....	25,000	
		Interest expense	500	
		Cash.....		25,500

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Medium
Learning Objective: P1

Chapter 011 Current Liabilities and Payroll Accounting

154. On September 15, SportsWorld borrowed \$75,000 cash from FirstBank by signing a 12%, 60-day note payable.

- a. Prepare SportsWorld's journal entry to record the issuance of the note payable.
- b. Prepare SportsWorld's journal entry to record the payment of the note at maturity.

a.

9/15	Cash	75,000	
	Note Payable		75,000

b.

11/14	Note Payable	75,000	
	Interest Expense($\$75,000 \times .12 \times 60/360$).....	1,500	
	Cash		76,500

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Medium
Learning Objective: P1

Chapter 011 Current Liabilities and Payroll Accounting

155. On December 1, Gates Company borrowed \$45,000 cash from FirstBank by signing a 90-day, 9% note payable.

- Prepare Gate's journal entry to record the issuance of the note payable.
- Prepare Gate's journal entry to record the accrued interest due at December 31.
- Prepare Gate's journal entry to record the payment of the note on March 1 of the next year.

12/1	Cash	45,000	
	Note Payable.....		45,000
12/31	Interest Expense (\$45,000 x .09 x 30/360).....	337.50	
	Interest Payable.....		337.50
3/1	Note Payable	45,000.00	
	Interest Payable	337.50	
	Interest Expense (\$45,000 x .09 x 60/360).....	675.00	
	Cash		46,012.50

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Medium
Learning Objective: P1

156. A company borrowed \$60,000 by signing a 60-day, 10% note payable from its bank. Compute the total cash payment due on the note's maturity date.

At maturity: $\$60,000 + \$ (60,000 \times .10 \times 60/360) = \underline{\$61,000}$

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Medium
Learning Objective: P1

Chapter 011 Current Liabilities and Payroll Accounting

157. The tax rate for FICA–social security is 6.2% and the tax rate for FICA–Medicare is 1.45%. Calculate the total amount of FICA withholding for an employee whose pay is \$2,400 and is entirely subject to these FICA taxes.

Social Security taxes =	\$148.80
Medicare tax =	<u>34.80</u>
	<u>\$183.60</u>

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Easy
Learning Objective: P2

158. An employee earned \$3,450 for the current period. Calculate the total and individual amounts to be withheld for social security (6.2%), Medicare (1.45%) and federal income tax (15%) assuming the entire employee's pay is subject to FICA taxes.

FICA–Social security =	\$ 213.90
FICA–Medicare =	50.03
Federal income tax =	<u>517.50</u>
	<u>\$781.43</u>

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Easy
Learning Objective: P2

Chapter 011 Current Liabilities and Payroll Accounting

159. A company has 2 employees. The company's total salaries for the month of January were \$8,000. The federal income tax rate for both employees is 15%. The FICA–social security tax rate is 6.2% and the FICA–Medicare tax rate is 1.45%. Calculate the amount of employee taxes withheld and prepare the company's journal entry to record the January payroll assuming these were the only deductions.

Salaries Expense	8,000	
FICA–Social Security Taxes Payable ($\$8,000 \times .062$)..		496
FICA–Medicare Taxes Payable ($\$8,000 \times .0145$)		116
Employees' Federal Income Taxes Payable ($\$8,000 \times .15$)		1,200
Accrued Payroll Payable.....		6,188

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Medium
Learning Objective: P2

160. A company has 90 employees and a weekly payroll of \$117,000. The FICA–social security tax rate is 6.2% and the FICA–Medicare tax rate is 1.45%. The total withholding for federal income tax is \$16,500 for the current week. Calculate the amount of FICA taxes owed (assuming no employee's salary is over the FICA limit) and prepare the journal entry to accrue this week's salaries expense and withholdings.

Salaries Expense	117,000.00	
FICA–Social Security Taxes Payable ($\$117,000 \times .062$)		7,254.00
FICA–Medicare Taxes Payable ($\$117,000 \times .0145$).....		1,696.50
Employee's Federal Income Taxes Payable		16,500.00
Accrued Payroll Payable.....		91,549.50

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Medium
Learning Objective: P2

Chapter 011 Current Liabilities and Payroll Accounting

161. Metro Express has 5 sales employees, each of whom earns \$4,000 per month and is paid on the last working day of the month. Each employee's wages are subject to FICA social security taxes of 6.2% and Medicare taxes of 1.45% on all wages. Withholding for each employee also includes federal income tax of 16% and monthly medical insurance premiums of \$110 for each employee.

- a. Prepare the general journal entry to accrue the monthly sales salaries expense at January 31.
- b. The employer payroll taxes for Metro Express include FICA taxes, federal unemployment taxes of 0.8% of the first \$7,000 paid each employee, and state unemployment taxes of 4.0% of the first \$7,000 paid to each employee. Prepare the journal entry to record the employer's payroll taxes at January 31 for Metro Express. (Assume that none of the employees has reached the unemployment limit of \$7,000.)

Jan. 31	Sales Salaries Expense (5 x \$4,000).....	20,000.00	
	FICA-Social Security Taxes Payable (\$20,000 x .062)		1,240
	FICA-Medicare Taxes Payable (\$20,000 x .0145)		290
	Employee Federal Income Taxes Payable (20,000 x .16)		3,200
	Employee Medical Insurance Payable (5 x 110).....		550
	Accrued Payroll Payable		14,720
Jan. 31	Payroll Taxes Expense.....	2,490	
	FICA-Social Security Taxes Payable.....		1,240
	FICA-Medicare Taxes Payable.....		290
	State Unemployment Taxes Payable (20,000 x .04)		800
	Federal Unemployment Taxes Payable (20,000 x .008)		160

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Medium
Learning Objective: P2
Learning Objective: P3

Chapter 011 Current Liabilities and Payroll Accounting

162. The payroll records of a company provided the following data for the weekly pay period ended December 7:

<u>Employee</u>	<u>Earnings to End of Previous Week</u>	<u>Gross Pay</u>	<u>Federal Income Taxes</u>	<u>Medical Insurance Deduction</u>	<u>Union Dues</u>	<u>United Way</u>
Ronald Arthur	\$ 54,000	\$1,200	\$216	\$125	\$15	\$15
John Baines	40,500	900	162	125	15	30
Ted Carter	45,000	1,000	180	150	-0-	20

The FICA social security tax rate is 6.2% and the FICA Medicare tax rate is 1.45% on all of this week's wages paid to each employee. The federal and state unemployment tax rates are 0.8% and 5.4%, respectively, on the first \$7,000 paid to each employee. Prepare the journal entries to (a) accrue the payroll and (b) record payroll taxes expense.

(a)

Dec. 7	Salaries and Wages Expense	3,100.00	
	Federal Income Taxes Payable.....		558.00
	Medical Insurance Payable		400.00
	Union Dues Payable		30.00
	United Way Payable.....		65.00
	FICA–Social Security Taxes Payable.....		192.20
	FICA–Medicare Taxes Payable		44.95
	Accrued Payroll Payable.....		1,809.85

(b)

7	Payroll Taxes Expense	237.15	
	FICA–Social Security Taxes Payable.....		192.20
	FICA–Medicare Taxes Payable		44.95

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Medium
Learning Objective: P2
Learning Objective: P3

Chapter 011 Current Liabilities and Payroll Accounting

163. A company's payroll for the week ended May 15 included earned salaries of \$20,000. All of that week's pay is subject to FICA social security taxes of 6.2% and Medicare taxes of 1.45%. In addition, the company withholds the following amounts for this weekly pay period: \$900 for medical insurance, \$3,400 for federal income taxes, and \$180 for union dues.

- Prepare the general journal entry to accrue the payroll.
- The company is subject to state unemployment taxes at the rate of 2% and federal unemployment taxes at the rate of 0.8%. By May 15, some employees had earned over \$7,000, so only \$9,000 of the \$20,000 weekly gross pay was subject to unemployment tax. Prepare the general journal entry to accrue the employer's payroll tax expense.

May 15	Sales Salaries Expense	20,000	
	FICA–Social Security Taxes Payable.....		1,240
	FICA–Medicare Taxes Payable		290
	Employee Income Taxes Payable.....		3,400
	Employee Medical Insurance Payable		900
	Employee Union Dues Payable.....		180
	Accrued Payroll Payable.....		13,990
May 15	Payroll Taxes Expense	1,782	
	FICA–Social Security Taxes Payable.....		1,240
	FICA–Medicare Taxes Payable		290
	State Unemployment Taxes Payable (\$9,000 x .02).....		180
	Federal Unemployment Taxes Payable (\$9,000 x .008)...		72

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Medium
Learning Objective: P2
Learning Objective: P3

Chapter 011 Current Liabilities and Payroll Accounting

164. A company's employees had the following earnings records at the close of the current payroll period:

<u>Employees</u>	<u>Earning through Prior Pay Period</u>	<u>Earning this Pay Period</u>
D. Adams....	\$11,300	\$3,900
J. Hess.....	6,100	2,500
R. Lui.....	9,500	3,100
T. Morales....	4,800	1,400
L. Vang.....	10,000	3,000

The company's payroll taxes expense on each employee's earnings includes: FICA Social Security taxes of 6.2% on the first \$103,000 of earnings plus 1.45% FICA Medicare on all wages; 0.8% federal unemployment taxes on the first \$7,000; and 2.5% state unemployment taxes on the first \$7,000. Compute the employer's total payroll taxes expense for the current pay period.

<u>Current earnings subject to:</u>		
	<u>FICA</u>	<u>SUTA and FUTA</u>
D. Adams....	\$ 3900	
J. Hess.....	2,500	\$ 900
R. Lui.....	3,100	
T. Morales....	1,400	1,400
L. Vang.....	3,000	
	<u>\$13,900</u>	<u>\$2,300</u>

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Medium
Learning Objective: P3

Chapter 011 Current Liabilities and Payroll Accounting

165. An employer has an employee benefit package that includes employer-paid health insurance and an employer-paid retirement program. During January, the employer paid \$7,500 for health insurance, and contributed to the employee retirement program 10% of the employees' \$150,000 gross salaries. Prepare the journal entry to record these employee benefits.

Employee Benefits Expense	22,500	
Employee Health Insurance Payable		7,500
Employee Retirement Program Payable		15,000

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Easy
Learning Objective: P4

166. A company sells its product subject to a warranty that covers the cost of parts for repairs during the six months after the date of sale. Warranty costs are estimated to be 6% of sales. During the month of June, the company performed warranty work and used \$12,000 of parts to perform the warranty work. Sales for June were \$450,000.

1. Record the warranty expense for the month of June.
2. Record the costs of the warranty work completed in June.
3. If the Estimated Warranty Liability account had a credit balance of \$10,000 on May 31, what is the account balance at June 30?

1.	Warranty Expense (\$450,000 x .06)	27,000	
	Estimated Warranty Liability		27,000
2.	Estimated Warranty Liability	12,000	
	Parts Inventory		12,000
3.	$\$10,000 + \$27,000 - \$12,000 = \underline{\underline{\$25,000}}$		

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Medium
Learning Objective: P4

Chapter 011 Current Liabilities and Payroll Accounting

167. A company sells personal computers for \$2,300 each. The price includes a two-year warranty. During the current year, the company sells 400 computers. On the basis of past experience, the warranty costs are estimated to be \$250 per computer. The actual warranty costs (paid in cash) by the company during the current year were \$65,000. Prepare general journal entries to record the (a) estimated warranty expense and (b) warranty repair costs during current year.

a.	Warranty Expense (400 x \$250).....	100,000	
	Estimated Warranty Liability		100,000
b.	Estimated Warranty Liability	65,000	
	Cash		65,000

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Medium
Learning Objective: P4

168. A company sells computers with a 6-month warranty. In January, the company sold 100,000 computers at \$1,750 each; and 1,500 computers were turned in for repairs during that same month. The total repairs amounted to \$185,000 costs from the computer parts inventory. It is estimated that 2% of all units sold will need repairs under warranty at an estimated cost of \$200 per unit. Prepare the journal entries to record (a) estimated warranty expense for January and (b) warranty repair costs for January.

Jan 31	Warranty Expense	400,000	
	Estimated Warranty Liability		400,000
	(100,000 x .02 x \$200)		
Jan. 31	Estimated Warranty Liability	185,000	
	Computer Parts Inventory		185,000

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Medium
Learning Objective: P4

Chapter 011 Current Liabilities and Payroll Accounting

169. Pastimes Co. offers its employees a bonus equal to 2% of the company's net income. The estimated net income for the year is expected to be \$850,000. Prepare the general journal entry to record the employee bonus plan expense.

Employee Bonus Expense	16,667	
Employee Bonus Payable		16,667

$$B = 0.02(\$850,000 - B)$$

$$B = \$17,000 - 0.02B$$

$$1.02 B = \$17,000$$

$$B = \$17,000/1.02 = \$16,667$$

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Hard
Learning Objective: P4

Chapter 011 Current Liabilities and Payroll Accounting

170. A company's employer payroll tax rates are 0.8% for federal unemployment taxes, 5.4% for state unemployment taxes, 6.2% for FICA social security taxes on earnings up to \$103,000, and 1.45% for FICA Medicare taxes on all earnings. Compute the W-2 Wage and Tax Statement information required below for the following employees:

Employee	Gross Earnings	Federal Income Taxes Withheld
A. Baker.....	\$114,000	\$17,600
C. Dirkson.....	52,000	8,200

	A. Baker	C. Dirkson
W-2 Information:		
Federal Income Tax Withheld.....	_____	_____
Wages, Tips, Other Compensation.....	_____	_____
Social Security Tax Withheld	_____	_____
Social Security Wages.....	_____	_____
Medicare Tax Withheld.....	_____	_____
Medicare Wages.....	_____	_____

	<u>A. Baker</u>	<u>C. Dirkson</u>
W-2 Information:		
Federal Income Tax Withheld.....	\$17,600	\$ 8,200
Wages, Tips, Other Compensation.....	114,000	52,000
Social Security Tax Withheld	6,386.00	3,224
	(\$103,000 x .062)	(52,000 x .062)
Social Security Wages.....	114,000	52,000
Medicare Tax Withheld.....	1,653	754
	(\$114,000 x .0145)	(52,000 x .0145)
Medicare Wages.....	114,000	52,000

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Hard
Learning Objective: P5

Chapter 011 Current Liabilities and Payroll Accounting

171. The payroll records of a company provided the following data for the current weekly pay period ended March 7.

<u>Employees</u>	<u>Earnings to End of Previous Week</u>	<u>Gross Pay</u>	<u>Federal Income Taxes</u>	<u>Health Insurance Deduction</u>	<u>Union Dues</u>	<u>United Way</u>
A. Poe.....	\$ 5,800	\$800	\$120	\$25	\$10	\$10
B. Rye.....	6,850	1,100	180	30	10	15
C. Sims.....	12,900	1,440	404	40	0	40

Assume that the Social Security portion of the FICA taxes is 6.2% on the first \$103,000 and the Medicare portion is 1.45% of all wages paid to each employee for this pay period. The federal and state unemployment tax rates are 0.8% and 5.4%, respectively, on the first \$7,000 paid to each employee.

Calculate the net pay for each employee.

	<u>Gross Pay</u>	<u>Federal Income Taxes</u>	<u>Medical Insurance Deduction</u>	<u>Union Dues Deduction</u>	<u>United Way Deduction</u>	<u>FICA</u>	<u>Total Deductions</u>	<u>Net Pay</u>
A. Poe.....	\$ 800.00	\$120.00	\$25.00	\$10.00	\$10.00	\$61.20	\$226.20	<u>\$573.80</u>
B. Rye.....	1,100.00	180.00	30.00	10.00	15.00	84.15	319.15	<u>780.85</u>
C. Sims.....	1,440.00	404.00	40.00	0.00	40.00	110.16	594.16	<u>845.84</u>

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Medium
Learning Objective: P2

Chapter 011 Current Liabilities and Payroll Accounting

172. A company's payroll information for the month of May follows:

Administrative salaries	\$2,000
Sales salaries	3,500
Shop wages	4,000
FICA-Social Security taxes withheld.....	589
FICA-Medicare taxes withheld	138
Federal income taxes withheld	1,300
Medical insurance premiums withheld	415
Union dues withheld.....	205

On May 31 the company issued Check No. 335 payable to the Payroll Bank Account to pay for the May payroll. It issued payroll checks to the employees after depositing the check.

(1) Prepare the journal entry to record (accrue) the employer's payroll for May. (2) Prepare the journal entry to record payment of the May payroll. The federal and state unemployment tax rates are 0.8% and 5.4%, respectively, on the first \$7,000 paid to each employee. The wages and salaries subject to these taxes were \$6,000. (3) Prepare the journal entry to record the employer's payroll taxes.

Chapter 011 Current Liabilities and Payroll Accounting

May	31	Administrative Salaries Expense.....	2,000	
		Sales Salaries Expense	3,500	
		Shop Wages Expense	4,000	
		FICA-Social Security Taxes Payable.....		589
		FICA-Medicare Taxes Payable.....		138
		Employee Federal Income Taxes Payable..		1,300
		Employee Medical Insurance Payable		415
		Employee Union Dues Payable		205
		Salaries Payable.....		6,853
	31	Salaries Payable	6,853	
		Cash		6,853
	31	Payroll Taxes Expense	1,099	
		FICA-Social Security Taxes Payable.....		589
		FICA-Medicare Taxes Payable.....		138
		Federal Unemployment Taxes Payable*....		48
		State Unemployment Taxes Payable*		324

*\$6,000 x 0.008 = \$48.

*\$6,000 x 0.054 = \$324.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Hard
Learning Objective: P2
Learning Objective: P3

Fill in the Blank Questions

173. _____ are obligations due within one year or the company's operating cycle, whichever is longer.

Current liabilities

AACSB: Communications
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Easy
Learning Objective: C1

Chapter 011 Current Liabilities and Payroll Accounting

174. _____ are probable future payments of assets or services that a company is presently obligated to make as a result of past transactions or events.

Liabilities

AACSB: Communications

AICPA BB: Industry

AICPA FN: Measurement

Difficulty: Easy

Learning Objective: C1

175. Unearned revenues are amounts received _____ for future products or services.

In advance from customers

AACSB: Communications

AICPA BB: Industry

AICPA FN: Measurement

Difficulty: Medium

Learning Objective: C2

176. _____ are amounts owed to suppliers for products or services purchased on credit.

Trade accounts payable

AACSB: Communications

AICPA BB: Industry

AICPA FN: Measurement

Difficulty: Medium

Learning Objective: C2

177. A _____ is a potential obligation that depends on a future event arising from a past transaction or event.

Contingent liability

AACSB: Communications

AICPA BB: Industry

AICPA FN: Measurement

Difficulty: Medium

Learning Objective: C3

Chapter 011 Current Liabilities and Payroll Accounting

178. Contingent liabilities are recorded in the accounts if the future event is _____ and the amount owed can be _____.

Probable; reasonably estimated

AACSB: Communications

AICPA BB: Industry

AICPA FN: Measurement

Difficulty: Hard

Learning Objective: C3

179. _____ are banks authorized to accept deposits of amounts payable to the federal government, including amounts due for payroll taxes.

Federal depository banks

AACSB: Communications

AICPA BB: Industry

AICPA FN: Decision Making

Difficulty: Medium

Learning Objective: P5

180. A _____ shows the pay period dates, hours worked, gross pay, deductions, and net pay of each employee for every pay period.

Payroll register

AACSB: Communications

AICPA BB: Industry

AICPA FN: Decision Making

Difficulty: Medium

Learning Objective: P5

181. Times interest earned is computed by dividing _____ by interest expense.

Income before interest expense and income taxes

AACSB: Communications

AICPA BB: Industry

AICPA FN: Risk Analysis

Difficulty: Medium

Learning Objective: A1

Chapter 011 Current Liabilities and Payroll Accounting

182. The difference between the amount borrowed and the amount repaid is referred to as _____.

Interest

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: P1

183. A _____ is a written promise to pay a specified amount on a definite future date within one year or the company's operating cycle, whichever is longer.

Short-term note payable

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: P1

184. _____ is the total compensation an employee earns including wages, salaries, commissions, bonuses, and any compensation earned before deductions such as taxes.

Gross pay

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: P2

185. Gross pay less all deductions is called _____.

Net pay

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: P2

Chapter 011 Current Liabilities and Payroll Accounting

186. _____ allowances are items that reduce the amount of federal income taxes owed by the individual.

Withholding

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Hard
Learning Objective: P2

187. Employer payroll taxes are an added employee _____ beyond the wages and salaries earned by the employees.

Expense

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: P3

188. A _____ is a seller's obligation to replace or correct a product or service that fails to perform as expected within a specified period.

Warranty

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: P4

189. Vacation benefits are a type of _____ liability.

Estimated

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: P4

Chapter 011 Current Liabilities and Payroll Accounting

190. To compute the amount of tax withheld from an employee's pay, employers can use a _____ table.

Wage bracket withholding

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: P5

191. Companies with many employees often use a special _____ account to pay employees.

Payroll bank

AACSB: Communications
AICPA BB: Industry
AICPA FN: Decision Making
Difficulty: Easy
Learning Objective: P5

Problems

192. Starling Company sells merchandise for \$24,000 cash on March 31 (cost of merchandise is \$12,300). The sales tax law requires Starling to collect 8.25% sales tax on every dollar of merchandise sold. Record the entry for the sale and its applicable sales tax.

Cash	25,980	
Sales Taxes Payable		1,980
Sales		24,000

AACSB: Analytic
AICPA BB: Industry, Legal
AICPA FN: Measurement
Difficulty: Easy
Learning Objective: C2

Chapter 011 Current Liabilities and Payroll Accounting

193. All Star Sports receives \$48,000,000 cash in advance ticket sales for 12 home games. Record the advance ticket sales on April 30. Record the revenue earned for the first home game played on August 14.

Apr. 30	Cash.....	48,000,000	
	Unearned Ticket Revenue		48,000,000
Aug. 14	Unearned Ticket Revenue	4,000,000	
	Ticket Revenue.....		4,000,000

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Medium
Learning Objective: C2

Chapter 011 Current Liabilities and Payroll Accounting

194. On January 31, Hale Company's payroll register showed that its employees earned \$30,320 of office salaries and \$82,750 of sales salaries. Withholdings from the employees' salaries include FICA Social Security taxes at the rate of 6.2%, FICA Medicare taxes at the rate of 1.45%, \$16,960 of federal income taxes, \$2,350 of medical insurance deductions (which represents 50% of the total cost of the employee medical insurance), and \$4,210 of 401(k) retirement contribution deductions. Hale Company pays the other 50% of the employee insurance cost and matches the employee 401(k) contributions. Several employees earned more than \$7,000 for the period which reduced salaries subject to unemployment to \$110,000. No employees exceeded the FICA-Social Security taxable wage base.

1. Prepare the journal entry to record Hale Company's January 31 payroll expenses and liabilities.
2. Prepare the journal entry to record Hale Company's employer payroll taxes resulting from the January 31 payroll. Hale's merit rating reduces its state unemployment to 4% of the first \$7,000 paid each employee. The federal unemployment tax rate is .8%.
3. Prepare the journal entry to record Hale's additional employee expenses.

Jan. 31	Office Salaries Expense.....	30,320.00	
	Sales Salaries Expense	82,750.00	
	FICA-Social Security Taxes Payable (113,070 x .062).....		7,010.34
	FICA-Medicare Taxes Payable (113,070 x .0145).....		1,639.52
	Employee Federal Income Taxes Payable.....		16,960.00
	Employee Medical Insurance Payable		2,350.00
	Employee Retirement Program Payable		4,210.00
	Salaries Payable.....		80,900.14
Jan. 31	Payroll Taxes Expense	13,929.86	
	FICA-Social Security Taxes Payable (113,070 x .062).....		7,010.34
	FICA-Medicare Taxes Payable (113,070 x .0145).....		1,639.52
	State Unemployment Taxes Payable (110,000 x .04)		4,400.00
	Federal Unemployment Taxes Payable (110,000 x .008) ..		880.00
Jan. 31	Employee Benefits Expense.....	6,560.00	
	Employee Medical Insurance Payable		2,350.00
	Employee Retirement Program Payable		4,210.00

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Hard
Learning Objective: P2
Learning Objective: P3

Chapter 011 Current Liabilities and Payroll Accounting

195. Helix Co. entered into the following transactions involving short-term notes payable.
 May 14 Purchased \$40,000 merchandise from Advent Co., terms are 2/15, n/30. Helix uses the perpetual inventory system.
 May 29 Replaced the May 14 account payable with a 60-day, \$30,000 note bearing 8% annual along with paying \$10,000 in cash.

_____ Paid the amount due on the note at maturity.

1. Determine the maturity date for the note.
2. Prepare journal entries for all the preceding transactions and events.

1. Maturity date: July 28 (2 days in May, 30 days in June, 28 days in July)

2.

5/14	Merchandise Inventory.....	40,000	
	Accounts Payable.....		40,000
5/29	Accounts Payable	40,000	
	Notes Payable		30,000
	Cash		10,000
7/28	Note Payable	30,000	
	Interest Expense (\$30,000 x .08 x 60/360).....	400	
	Cash		30,400

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Medium
Learning Objective: P1

196. Blake Company pays its employees for two weeks vacation each year. The total annual cost of the vacation benefit is \$113,000. Prepare the journal entry to record the weekly accrued vacation expense.

Vacation Benefits Expense.....	2,260.00	
Vacation Benefits Payable		2,260.00

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: Easy
Learning Objective: P3