# SUMMARY OF QUESTIONS BY STUDY OBJECTIVES AND BLOOM’S TAXONOMY

## True-False Statements

<table>
<thead>
<tr>
<th>Item</th>
<th>SO</th>
<th>BT</th>
<th>Item</th>
<th>SO</th>
<th>BT</th>
<th>Item</th>
<th>SO</th>
<th>BT</th>
<th>Item</th>
<th>SO</th>
<th>BT</th>
<th>Item</th>
<th>SO</th>
<th>BT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>C</td>
<td>2</td>
<td>9.</td>
<td>2</td>
<td>C</td>
<td>17.</td>
<td>3</td>
<td>K</td>
<td>25.</td>
<td>7</td>
<td>K</td>
<td>sg33.</td>
<td>3</td>
<td>K</td>
</tr>
<tr>
<td>2.</td>
<td>K</td>
<td>10</td>
<td>10.</td>
<td>2</td>
<td>K</td>
<td>18.</td>
<td>4</td>
<td>AP</td>
<td>26.</td>
<td>8</td>
<td>C</td>
<td>sg34.</td>
<td>5</td>
<td>C</td>
</tr>
<tr>
<td>3.</td>
<td>C</td>
<td>11</td>
<td>11.</td>
<td>2</td>
<td>C</td>
<td>19.</td>
<td>4</td>
<td>K</td>
<td>27.</td>
<td>8</td>
<td>C</td>
<td>sg35.</td>
<td>6</td>
<td>K</td>
</tr>
<tr>
<td>4.</td>
<td>C</td>
<td>12</td>
<td>12.</td>
<td>2</td>
<td>K</td>
<td>20.</td>
<td>5</td>
<td>K</td>
<td>28.</td>
<td>8</td>
<td>C</td>
<td>sg36.</td>
<td>7</td>
<td>K</td>
</tr>
<tr>
<td>5.</td>
<td>K</td>
<td>13</td>
<td>13.</td>
<td>3</td>
<td>K</td>
<td>21.</td>
<td>5</td>
<td>K</td>
<td>29.</td>
<td>8</td>
<td>K</td>
<td>sg37.</td>
<td>8</td>
<td>K</td>
</tr>
<tr>
<td>6.</td>
<td>K</td>
<td>14</td>
<td>14.</td>
<td>3</td>
<td>C</td>
<td>22.</td>
<td>5</td>
<td>C</td>
<td>sg30.</td>
<td>9</td>
<td>K</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>C</td>
<td>15</td>
<td>15.</td>
<td>3</td>
<td>AP</td>
<td>23.</td>
<td>6</td>
<td>K</td>
<td>sg31.</td>
<td>1</td>
<td>K</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>AP</td>
<td>16</td>
<td>16.</td>
<td>3</td>
<td>C</td>
<td>24.</td>
<td>6</td>
<td>K</td>
<td>sg32.</td>
<td>2</td>
<td>K</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## Multiple Choice Questions

<table>
<thead>
<tr>
<th>Item</th>
<th>SO</th>
<th>BT</th>
<th>Item</th>
<th>SO</th>
<th>BT</th>
<th>Item</th>
<th>SO</th>
<th>BT</th>
<th>Item</th>
<th>SO</th>
<th>BT</th>
<th>Item</th>
<th>SO</th>
<th>BT</th>
</tr>
</thead>
<tbody>
<tr>
<td>39.</td>
<td>K</td>
<td>1</td>
<td>62.</td>
<td>3</td>
<td>K</td>
<td>85.</td>
<td>3</td>
<td>C</td>
<td>108.</td>
<td>45</td>
<td>K</td>
<td>131.</td>
<td>7</td>
<td>K</td>
</tr>
<tr>
<td>40.</td>
<td>C</td>
<td>1</td>
<td>63.</td>
<td>3</td>
<td>K</td>
<td>86.</td>
<td>3</td>
<td>AP</td>
<td>109.</td>
<td>6</td>
<td>K</td>
<td>132.</td>
<td>7</td>
<td>AP</td>
</tr>
<tr>
<td>41.</td>
<td>K</td>
<td>1</td>
<td>64.</td>
<td>2</td>
<td>AN</td>
<td>87.</td>
<td>3</td>
<td>AP</td>
<td>110.</td>
<td>6</td>
<td>K</td>
<td>133.</td>
<td>8</td>
<td>K</td>
</tr>
<tr>
<td>42.</td>
<td>K</td>
<td>1</td>
<td>65.</td>
<td>2</td>
<td>AN</td>
<td>88.</td>
<td>3</td>
<td>AP</td>
<td>111.</td>
<td>6</td>
<td>K</td>
<td>134.</td>
<td>8</td>
<td>K</td>
</tr>
<tr>
<td>43.</td>
<td>K</td>
<td>1</td>
<td>66.</td>
<td>2</td>
<td>AP</td>
<td>89.</td>
<td>3</td>
<td>K</td>
<td>112.</td>
<td>6</td>
<td>K</td>
<td>a135.</td>
<td>9</td>
<td>K</td>
</tr>
<tr>
<td>44.</td>
<td>C</td>
<td>1</td>
<td>67.</td>
<td>2</td>
<td>AP</td>
<td>90.</td>
<td>3</td>
<td>AP</td>
<td>113.</td>
<td>6</td>
<td>K</td>
<td>a136.</td>
<td>9</td>
<td>AP</td>
</tr>
<tr>
<td>45.</td>
<td>C</td>
<td>1</td>
<td>68.</td>
<td>2</td>
<td>AP</td>
<td>91.</td>
<td>3</td>
<td>C</td>
<td>114.</td>
<td>6</td>
<td>K</td>
<td>a137.</td>
<td>9</td>
<td>C</td>
</tr>
<tr>
<td>46.</td>
<td>C</td>
<td>1</td>
<td>69.</td>
<td>2</td>
<td>AP</td>
<td>92.</td>
<td>3</td>
<td>C</td>
<td>115.</td>
<td>6</td>
<td>K</td>
<td>a138.</td>
<td>9</td>
<td>K</td>
</tr>
<tr>
<td>47.</td>
<td>C</td>
<td>1</td>
<td>70.</td>
<td>3</td>
<td>C</td>
<td>93.</td>
<td>4</td>
<td>K</td>
<td>116.</td>
<td>6</td>
<td>K</td>
<td>st139.</td>
<td>1</td>
<td>K</td>
</tr>
<tr>
<td>48.</td>
<td>K</td>
<td>2</td>
<td>71.</td>
<td>3</td>
<td>C</td>
<td>94.</td>
<td>4</td>
<td>AP</td>
<td>117.</td>
<td>6</td>
<td>K</td>
<td>sg140.</td>
<td>1</td>
<td>K</td>
</tr>
<tr>
<td>49.</td>
<td>K</td>
<td>2</td>
<td>72.</td>
<td>3</td>
<td>AP</td>
<td>95.</td>
<td>4</td>
<td>C</td>
<td>118.</td>
<td>6</td>
<td>C</td>
<td>sg141.</td>
<td>2,3</td>
<td>K</td>
</tr>
<tr>
<td>50.</td>
<td>K</td>
<td>2</td>
<td>73.</td>
<td>3</td>
<td>C</td>
<td>96.</td>
<td>5</td>
<td>C</td>
<td>119.</td>
<td>6</td>
<td>C</td>
<td>st142.</td>
<td>4</td>
<td>K</td>
</tr>
<tr>
<td>51.</td>
<td>C</td>
<td>2</td>
<td>74.</td>
<td>3</td>
<td>C</td>
<td>97.</td>
<td>5</td>
<td>K</td>
<td>120.</td>
<td>6</td>
<td>C</td>
<td>sg143.</td>
<td>5</td>
<td>C</td>
</tr>
<tr>
<td>52.</td>
<td>AP</td>
<td>2</td>
<td>75.</td>
<td>3</td>
<td>AP</td>
<td>98.</td>
<td>5</td>
<td>K</td>
<td>121.</td>
<td>6</td>
<td>C</td>
<td>st144.</td>
<td>5</td>
<td>K</td>
</tr>
<tr>
<td>53.</td>
<td>AN</td>
<td>2</td>
<td>76.</td>
<td>3</td>
<td>AP</td>
<td>99.</td>
<td>5</td>
<td>K</td>
<td>122.</td>
<td>7</td>
<td>C</td>
<td>sg145.</td>
<td>6</td>
<td>AP</td>
</tr>
<tr>
<td>54.</td>
<td>AP</td>
<td>2</td>
<td>77.</td>
<td>3</td>
<td>AP</td>
<td>100.</td>
<td>5</td>
<td>K</td>
<td>123.</td>
<td>7</td>
<td>C</td>
<td>st146.</td>
<td>6</td>
<td>K</td>
</tr>
<tr>
<td>55.</td>
<td>C</td>
<td>2</td>
<td>78.</td>
<td>3</td>
<td>C</td>
<td>101.</td>
<td>5</td>
<td>K</td>
<td>124.</td>
<td>6</td>
<td>C</td>
<td>sg147.</td>
<td>6</td>
<td>K</td>
</tr>
<tr>
<td>56.</td>
<td>C</td>
<td>2</td>
<td>79.</td>
<td>3</td>
<td>K</td>
<td>102.</td>
<td>5</td>
<td>C</td>
<td>125.</td>
<td>6</td>
<td>C</td>
<td>st148.</td>
<td>7</td>
<td>K</td>
</tr>
<tr>
<td>57.</td>
<td>AN</td>
<td>2</td>
<td>80.</td>
<td>3</td>
<td>AP</td>
<td>103.</td>
<td>5</td>
<td>K</td>
<td>126.</td>
<td>7</td>
<td>C</td>
<td>sg149.</td>
<td>7</td>
<td>K</td>
</tr>
<tr>
<td>58.</td>
<td>AN</td>
<td>2</td>
<td>81.</td>
<td>3</td>
<td>K</td>
<td>104.</td>
<td>5</td>
<td>AP</td>
<td>127.</td>
<td>7</td>
<td>C</td>
<td>st150.</td>
<td>9</td>
<td>K</td>
</tr>
<tr>
<td>59.</td>
<td>AP</td>
<td>2</td>
<td>82.</td>
<td>3</td>
<td>K</td>
<td>105.</td>
<td>5</td>
<td>AP</td>
<td>128.</td>
<td>7</td>
<td>C</td>
<td>a151.</td>
<td>9</td>
<td>AP</td>
</tr>
<tr>
<td>60.</td>
<td>C</td>
<td>2</td>
<td>83.</td>
<td>3</td>
<td>K</td>
<td>106.</td>
<td>5</td>
<td>K</td>
<td>129.</td>
<td>7</td>
<td>C</td>
<td>a160.</td>
<td>9</td>
<td>AP</td>
</tr>
<tr>
<td>61.</td>
<td>C</td>
<td>3</td>
<td>84.</td>
<td>3</td>
<td>K</td>
<td>107.</td>
<td>5</td>
<td>K</td>
<td>130.</td>
<td>7</td>
<td>K</td>
<td>a160.</td>
<td>9</td>
<td>AP</td>
</tr>
</tbody>
</table>

## Brief Exercises

<table>
<thead>
<tr>
<th>Item</th>
<th>SO</th>
<th>BT</th>
<th>Item</th>
<th>SO</th>
<th>BT</th>
<th>Item</th>
<th>SO</th>
<th>BT</th>
<th>Item</th>
<th>SO</th>
<th>BT</th>
<th>Item</th>
<th>SO</th>
<th>BT</th>
</tr>
</thead>
<tbody>
<tr>
<td>151.</td>
<td>C</td>
<td>1</td>
<td>153.</td>
<td>2</td>
<td>AP</td>
<td>155.</td>
<td>3</td>
<td>AP</td>
<td>157.</td>
<td>6</td>
<td>AP</td>
<td>159.</td>
<td>7</td>
<td>AP</td>
</tr>
<tr>
<td>152.</td>
<td>K</td>
<td>1</td>
<td>154.</td>
<td>3</td>
<td>AP</td>
<td>156.</td>
<td>5</td>
<td>AN</td>
<td>158.</td>
<td>6</td>
<td>AP</td>
<td>a160.</td>
<td>9</td>
<td>AP</td>
</tr>
</tbody>
</table>

sg This question also appears in the Study Guide.

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

a This question covers a topic in an appendix to the chapter.
### SUMMARY OF QUESTIONS BY STUDY OBJECTIVES AND BLOOM’S TAXONOMY

#### Exercises

<table>
<thead>
<tr>
<th>Study Objective</th>
<th>Item</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>161</td>
<td>AP</td>
</tr>
<tr>
<td>2</td>
<td>162</td>
<td>AP</td>
</tr>
<tr>
<td>3</td>
<td>163</td>
<td>AP</td>
</tr>
<tr>
<td>4</td>
<td>164</td>
<td>AN</td>
</tr>
<tr>
<td>5</td>
<td>165</td>
<td>AP</td>
</tr>
</tbody>
</table>

#### Completion Statements

<table>
<thead>
<tr>
<th>Item</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>183</td>
<td>K</td>
</tr>
<tr>
<td>184</td>
<td>K</td>
</tr>
</tbody>
</table>

### SUMMARY OF STUDY OBJECTIVES BY QUESTION TYPE

<table>
<thead>
<tr>
<th>Item</th>
<th>Type</th>
<th>Item</th>
<th>Type</th>
<th>Item</th>
<th>Type</th>
<th>Item</th>
<th>Type</th>
<th>Item</th>
<th>Type</th>
<th>Item</th>
<th>Type</th>
<th>Item</th>
<th>Type</th>
<th>Item</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>TF</td>
<td>4</td>
<td>TF</td>
<td>40</td>
<td>MC</td>
<td>43</td>
<td>MC</td>
<td>46</td>
<td>MC</td>
<td>140</td>
<td>MC</td>
<td>161</td>
<td>Ex</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>TF</td>
<td>31</td>
<td>TF</td>
<td>41</td>
<td>MC</td>
<td>44</td>
<td>MC</td>
<td>47</td>
<td>MC</td>
<td>151</td>
<td>BE</td>
<td>183</td>
<td>C</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>TF</td>
<td>39</td>
<td>MC</td>
<td>42</td>
<td>MC</td>
<td>45</td>
<td>MC</td>
<td>139</td>
<td>MC</td>
<td>152</td>
<td>BE</td>
<td>184</td>
<td>C</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>TF</td>
<td>16</td>
<td>TF</td>
<td>50</td>
<td>MC</td>
<td>54</td>
<td>MC</td>
<td>59</td>
<td>MC</td>
<td>66</td>
<td>MC</td>
<td>153</td>
<td>BE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>TF</td>
<td>11</td>
<td>TF</td>
<td>51</td>
<td>MC</td>
<td>56</td>
<td>MC</td>
<td>63</td>
<td>MC</td>
<td>68</td>
<td>MC</td>
<td>162</td>
<td>Ex</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>TF</td>
<td>32</td>
<td>TF</td>
<td>52</td>
<td>MC</td>
<td>57</td>
<td>MC</td>
<td>64</td>
<td>MC</td>
<td>69</td>
<td>MC</td>
<td>185</td>
<td>C</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>TF</td>
<td>48</td>
<td>MC</td>
<td>53</td>
<td>MC</td>
<td>58</td>
<td>MC</td>
<td>65</td>
<td>MC</td>
<td>141</td>
<td>MC</td>
<td>186</td>
<td>C</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>TF</td>
<td>61</td>
<td>MC</td>
<td>73</td>
<td>MC</td>
<td>79</td>
<td>MC</td>
<td>85</td>
<td>MC</td>
<td>92</td>
<td>MC</td>
<td>166</td>
<td>Ex</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>TF</td>
<td>62</td>
<td>MC</td>
<td>74</td>
<td>MC</td>
<td>80</td>
<td>MC</td>
<td>86</td>
<td>MC</td>
<td>141</td>
<td>MC</td>
<td>167</td>
<td>Ex</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>TF</td>
<td>63</td>
<td>MC</td>
<td>75</td>
<td>MC</td>
<td>81</td>
<td>MC</td>
<td>87</td>
<td>MC</td>
<td>154</td>
<td>BE</td>
<td>187</td>
<td>C</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>TF</td>
<td>70</td>
<td>MC</td>
<td>76</td>
<td>MC</td>
<td>82</td>
<td>MC</td>
<td>88</td>
<td>MC</td>
<td>155</td>
<td>BE</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>TF</td>
<td>71</td>
<td>MC</td>
<td>77</td>
<td>MC</td>
<td>83</td>
<td>MC</td>
<td>89</td>
<td>MC</td>
<td>164</td>
<td>Ex</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>TF</td>
<td>72</td>
<td>MC</td>
<td>78</td>
<td>MC</td>
<td>84</td>
<td>MC</td>
<td>90</td>
<td>MC</td>
<td>165</td>
<td>Ex</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>TF</td>
<td>91</td>
<td>MC</td>
<td>94</td>
<td>MC</td>
<td>108</td>
<td>MC</td>
<td>168</td>
<td>Ex</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>TF</td>
<td>93</td>
<td>MC</td>
<td>95</td>
<td>MC</td>
<td>142</td>
<td>MC</td>
<td>188</td>
<td>C</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Study Objective 5

<table>
<thead>
<tr>
<th>Item</th>
<th>Type</th>
<th>Item</th>
<th>Type</th>
<th>Item</th>
<th>Type</th>
<th>Item</th>
<th>Type</th>
<th>Item</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>TF</td>
<td>96</td>
<td>MC</td>
<td>100</td>
<td>MC</td>
<td>104</td>
<td>MC</td>
<td>143</td>
<td>MC</td>
</tr>
<tr>
<td>21</td>
<td>TF</td>
<td>97</td>
<td>MC</td>
<td>101</td>
<td>MC</td>
<td>105</td>
<td>MC</td>
<td>144</td>
<td>MC</td>
</tr>
<tr>
<td>22</td>
<td>TF</td>
<td>98</td>
<td>MC</td>
<td>102</td>
<td>MC</td>
<td>106</td>
<td>MC</td>
<td>156</td>
<td>BE</td>
</tr>
<tr>
<td>34</td>
<td>TF</td>
<td>99</td>
<td>MC</td>
<td>103</td>
<td>MC</td>
<td>107</td>
<td>MC</td>
<td>167</td>
<td>Ex</td>
</tr>
</tbody>
</table>

### Study Objective 6

<table>
<thead>
<tr>
<th>Item</th>
<th>Type</th>
<th>Item</th>
<th>Type</th>
<th>Item</th>
<th>Type</th>
<th>Item</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>23</td>
<td>TF</td>
<td>111</td>
<td>MC</td>
<td>116</td>
<td>MC</td>
<td>121</td>
<td>MC</td>
</tr>
<tr>
<td>24</td>
<td>TF</td>
<td>112</td>
<td>MC</td>
<td>117</td>
<td>MC</td>
<td>124</td>
<td>MC</td>
</tr>
<tr>
<td>35</td>
<td>TF</td>
<td>113</td>
<td>MC</td>
<td>118</td>
<td>MC</td>
<td>125</td>
<td>MC</td>
</tr>
<tr>
<td>101</td>
<td>MC</td>
<td>114</td>
<td>MC</td>
<td>119</td>
<td>MC</td>
<td>145</td>
<td>MC</td>
</tr>
<tr>
<td>109</td>
<td>MC</td>
<td>115</td>
<td>MC</td>
<td>120</td>
<td>MC</td>
<td>146</td>
<td>MC</td>
</tr>
</tbody>
</table>
CHAPTER STUDY OBJECTIVES

1. **Explain a current liability, and identify the major types of current liabilities.** A current liability is a debt that a company can reasonably expect to pay (1) from existing current assets or through the creation of other current liabilities, and (2) within one year or the operating cycle, whichever is longer. The major types of current liabilities are notes payable, accounts payable, sales taxes payable, unearned revenues, and accrued liabilities such as taxes, salaries and wages, and interest payable.

2. **Describe the accounting for notes payable.** When a promissory note is interest-bearing, the amount of assets received upon the issuance of the note is generally equal to the face value of the note. Interest expense accrues over the life of the note. At maturity, the amount paid equals the face value of the note plus accrued interest.

3. **Explain the accounting for other current liabilities.** Companies record sales taxes payable at the time the related sales occur. The company serves as a collection agent for the taxing authority. Sales taxes are not an expense to the company. Companies initially record unearned revenues in an Unearned Revenue account. As the company earns the revenue, a transfer from unearned revenue to earned revenue occurs. Companies report the current maturities of long-term debt as a current liability in the balance sheet.

4. **Explain the financial statement presentation and analysis of current liabilities.** Companies should report the nature and amount of each current liability in the balance sheet or in schedules in the notes accompanying the statements. The liquidity of a company may be analyzed by computing working capital and the current ratio.

5. **Describe the accounting and disclosure requirements for contingent liabilities.** If the contingency is probable (likely to occur) and the amount is reasonably estimable, the company should record the liability in the accounts. If the contingency is only reasonably possible (it could happen), then it should be disclosed only in the notes to the financial statements. If the possibility that the contingency will happen is remote (unlikely to occur), it need not be recorded or disclosed.
6. **Compute and record the payroll for a pay period.** The computation of the payroll involves gross earnings, payroll deductions, and net pay. In recording the payroll, companies debit salaries (or wages) expense for gross earnings, credit individual tax and other liability accounts for payroll deductions, and credit salaries (wages) payable for net pay. When the payroll is paid, companies debit Salaries and Wages Payable, and credit Cash.

7. **Describe and record employer payroll taxes.** Employer payroll taxes consist of FICA, federal unemployment taxes, and state unemployment taxes. The taxes are usually accrued at the time the company records the payroll by debiting Payroll Tax Expense and crediting separate liability accounts for each type of tax.

8. **Discuss the objectives of internal control for payroll.** The objectives of internal control for payroll are (1) to safeguard company assets against unauthorized payments of payrolls, and (2) to ensure the accuracy of the accounting records pertaining to payrolls.

9. **Identify additional fringe benefits associated with employee compensation.** Additional fringe benefits associated with wages are paid absences (paid vacations, sick pay benefits, and paid holidays), and post-retirement benefits (pensions, health care, and life insurance).

**TRUE-FALSE STATEMENTS**

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

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

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

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

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

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

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

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

9. Most notes are not interest bearing.

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

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

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

13. Unearned revenues should be classified as Other Revenues and Gains on the Income Statement.
14. The higher the sales tax rate, the more profit a retailer can earn.

15. Metropolitan Symphony sells 200 season tickets for $60,000 that includes a five concert season. The amount of Unearned Ticket Revenue after the second concert is $24,000.

16. During the month, a company sells goods for a total of $108,000, which includes sales taxes of $8,000; therefore, the company should recognize $100,000 in Sales Revenues and $8,000 in Sales Tax Expense.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Additional True-False Questions**

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

32. Notes payable usually are issued to meet long-term financing needs.
33. Current maturities of long-term debt are often identified as long-term debt due within one year on the balance sheet.

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

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

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

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

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

**Answers to True-False Statements**

<table>
<thead>
<tr>
<th>Item</th>
<th>Ans.</th>
<th>Item</th>
<th>Ans.</th>
<th>Item</th>
<th>Ans.</th>
<th>Item</th>
<th>Ans.</th>
<th>Item</th>
<th>Ans.</th>
<th>Item</th>
<th>Ans.</th>
</tr>
</thead>
</table>

**MULTIPLE CHOICE QUESTIONS**

39. All of the following are reported as current liabilities except
   a. accounts payable.
   b. bonds payable.
   c. notes payable.
   d. unearned revenues.

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

41. Most companies pay current liabilities
   a. out of current assets.
   b. by issuing interest-bearing notes payable.
   c. by issuing stock.
   d. by creating long-term liabilities.
42. A current liability is a debt that can reasonably be expected to be paid
   a. within one year.
   b. between 6 months and 18 months.
   c. out of currently recognized revenues.
   d. out of cash currently on hand.

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

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

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

46. Which of the following is usually not an accrued liability?
   a. Interest payable
   b. Wages payable
   c. Taxes payable
   d. Notes payable

47. In most companies, current liabilities are paid within
   a. one year through the creation of other current liabilities.
   b. the operating cycle through the creation of other current liabilities.
   c. one year out of current assets.
   d. the operating cycle out of current assets.

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

49. With an interest-bearing note, the amount of assets received upon issuance of the note is
   generally
   a. equal to the note's face value.
   b. greater than the note's face value.
   c. less than the note's face value.
   d. equal to the note's maturity value.
50. A note payable is in the form of
a. a contingency that is reasonably likely to occur.
b. a written promissory note.
c. an oral agreement.
d. a standing agreement.

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

Use the following information for questions 52–54.

Coffey County Bank agrees to lend Adcock Brick Company $200,000 on January 1. Adcock Brick Company signs a $200,000, 8%, 9-month note.

52. The entry made by Adcock Brick Company on January 1 to record the proceeds and issuance of the note is
a. Interest Expense ..........................................................  12,000
   Cash ...........................................................................  188,000
   Notes Payable ........................................................... 200,000
b. Cash ...........................................................................  200,000
   Notes Payable ........................................................... 200,000
c. Cash ...........................................................................  200,000
   Interest Expense .......................................................... 12,000
   Notes Payable ........................................................... 212,000
d. Cash ...........................................................................  200,000
   Interest Expense .......................................................... 12,000
   Notes Payable ........................................................... 200,000
   Interest Payable ..........................................................  12,000

53. What is the adjusting entry required if Adcock Brick Company prepares financial statements on June 30?
   a. Interest Expense ..........................................................  8,000
   Interest Payable ..........................................................  8,000
   b. Interest Expense ..........................................................  8,000
   Cash ...........................................................................  8,000
   c. Interest Payable ..........................................................  8,000
   Cash ...........................................................................  8,000
d. Interest Payable ..........................................................  8,000
   Interest Expense ..........................................................  8,000
54. What entry will Adcock Brick Company make to pay off the note and interest at maturity assuming that interest has been accrued to September 30?

a. Notes Payable ........................................ 212,000
   Cash ......................................................... 212,000
b. Notes Payable ........................................ 200,000
   Interest Payable ....................................... 12,000
   Cash ......................................................... 212,000
c. Interest Expense ..................................... 12,000
   Notes Payable ........................................ 200,000
   Cash ......................................................... 212,000
d. Interest Payable ..................................... 8,000
   Notes Payable ........................................ 200,000
   Interest Expense ..................................... 4,000
   Cash ......................................................... 212,000

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

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

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

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

Use the following information for questions 57–58.

On October 1, Jerry's Carpet Service borrows $250,000 from First National Bank on a 3-month, $250,000, 8% note.

57. What entry must Jerry's Carpet Service make on December 31 before financial statements are prepared?

a. Interest Payable ....................................... 5,000
   Interest Expense ....................................... 5,000
b. Interest Expense ....................................... 20,000
   Interest Payable ....................................... 20,000
c. Interest Expense ....................................... 5,000
   Interest Payable ....................................... 5,000
d. Interest Expense ....................................... 5,000
   Notes Payable ........................................ 5,000

58. The entry by Jerry's Carpet Service to record payment of the note and accrued interest on January 1 is

a. Notes Payable ........................................ 255,000
   Cash ......................................................... 255,000
b. Notes Payable ........................................ 250,000
   Interest Payable ....................................... 5,000
   Cash ......................................................... 255,000
58. (cont.)
   c. Notes Payable .................................................. 250,000  
      Interest Payable ............................................. 20,000  
      Cash ............................................................ 270,000  
   d. Notes Payable .................................................. 250,000  
      Interest Expense ............................................. 5,000  
      Cash ............................................................ 255,000  

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

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

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

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

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

Use the following information for questions 64–65.

On September 1, Ken's Painting Service borrows $50,000 from National Bank on a 4-month, $50,000, 6% note.
64. What entry must Ken's Painting Service make on December 31 before financial statements are prepared?
   a. Interest Payable ...................................................... 1,000
      Interest Expense .................................................. 1,000
   b. Interest Expense ...................................................... 3,000
      Interest Payable ................................................... 3,000
   c. Interest Expense ...................................................... 1,000
      Interest Payable ................................................... 1,000
   d. Interest Expense ...................................................... 1,000
      Notes Payable ...................................................... 1,000

65. The entry by Ken's Painting Service to record payment of the note and accrued interest on January 1 is
   a. Notes Payable ...................................................... 51,000
      Cash ................................................................. 51,000
   b. Notes Payable ...................................................... 50,000
      Interest Payable ................................................... 1,000
      Cash ................................................................. 51,000
   c. Notes Payable ...................................................... 50,000
      Interest Payable ................................................... 3,000
      Cash ................................................................. 53,000
   d. Notes Payable ...................................................... 50,000
      Interest Expense .................................................. 1,000
      Cash ................................................................. 51,000

66. The interest charged on a $100,000 note payable, at the rate of 8%, on a 90-day note would be
   a. $8,000.
   b. $4,444.
   c. $2,000.
   d. $667.

67. The interest charged on a $100,000 note payable, at the rate of 6%, on a 60-day note would be
   a. $6,000.
   b. $3,333.
   c. $1,500.
   d. $1,000.

68. The interest charged on a $50,000 note payable, at the rate of 8%, on a 3-month note would be
   a. $4,000.
   b. $2,000.
   c. $1,000.
   d. $667.

69. The interest charged on a $50,000 note payable, at the rate of 6%, on a 2-month note would be
   a. $3,000.
   b. $1,500.
   c. $750.
   d. $500.
70. A company receives $132, of which $12 is for sales tax. The journal entry to record the sale would include a
   a. debit to Sales Tax Expense for $12.
   b. credit to Sales Tax Payable for $12.
   c. debit to Sales for $132.
   d. debit to Cash for $120.

71. A company receives $174, of which $14 is for sales tax. The journal entry to record the sale would include a
   a. debit to Sales Tax Expense for $14.
   b. debit to Sales Tax Payable for $14.
   c. debit to Sales for $174.
   d. debit to Cash for $174.

72. A retail store credited the Sales account for the sales price and the amount of sales tax on sales. If the sales tax rate is 5% and the balance in the Sales account amounted to $315,000, what is the amount of the sales taxes owed to the taxing agency?
   a. $300,000
   b. $315,000
   c. $15,750
   d. $15,000

73. On January 1, 2008, Dunnin Company, a calendar-year company, issued $600,000 of notes payable, of which $150,000 is due on January 1 for each of the next four years. The proper balance sheet presentation on December 31, 2008, is
   a. Current Liabilities, $600,000.
   b. Long-term Debt, $600,000.
   c. Current Liabilities, $300,000; Long-term Debt, $300,000.
   d. Current Liabilities, $150,000; Long-term Debt, $450,000.

74. On January 1, 2008, Brunson Company, a calendar-year company, issued $400,000 of notes payable, of which $100,000 is due on January 1 for each of the next four years. The proper balance sheet presentation on December 31, 2008, is
   a. Current Liabilities, $400,000.
   b. Long-term Debt, $400,000.
   c. Current Liabilities, $100,000; Long-term Debt, $300,000.
   d. Current Liabilities, $300,000; Long-term Debt, $100,000.

75. A cash register tape shows cash sales of $1,500 and sales taxes of $120. The journal entry to record this information is
   a. Cash ................................................................. 1,620
      Sales ............................................................ 1,620
   b. Cash ................................................................. 1,620
      Sales ............................................................ 1,500
      Sales Tax Payable ................................. 120
      Sales ............................................................ 1,500
   c. Cash ................................................................. 1,500
      Sales Tax Expense ................................. 120
      Sales ............................................................ 1,500
   d. Cash ................................................................. 1,620
      Sales ............................................................ 1,500
      Sales Taxes Revenue .......................... 120
76. Jo’s Bookstore has collected $750 in sales taxes during April. If sales taxes must be remitted to the state government monthly, what entry will Jo’s Bookstore make to show the April remittance?
   a. Sales Taxes Payable............................................................ 750
      Cash ............................................................................  750
   b. Sales Tax Expense ............................................................. 750
      Cash ............................................................................  750
   c. Sales Tax Expense .............................................................. 750
      Sales Taxes Payable...................................................  750
   d. No entry required.

77. Jordon Company does not ring up sales taxes separately on the cash register. Total receipts for October amounted to $18,900. If the sales tax rate is 5%, what amount must be remitted to the state for October’s sales taxes?
   a. $900
   b. $945
   c. $45
   d. It cannot be determined.

78. Enrique’s Salon has total receipts for the month of $16,430 including sales taxes. If the sales tax rate is 6%, what are Enrique’s sales for the month?
   a. $15,444.20
   b. $17,415.80
   c. $15,500.00
   d. It cannot be determined.

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

80. A retail store credited the Sales account for the sales price and the amount of sales tax on sales. If the sales tax rate is 5% and the balance in the Sales account amounted to $189,000, what is the amount of the sales taxes owed to the taxing agency?
   a. $180,000
   b. $189,000
   c. $9,450
   d. $9,000

81. Advances from customers are classified as a(n)
   a. revenue.
   b. expense.
   c. current asset.
   d. current liability.

82. The current portion of long-term debt should
   a. be paid immediately.
   b. be reclassified as a current liability.
   c. be classified as a long-term liability.
   d. not be separated from the long-term portion of debt.
83. Sales taxes collected by a retailer are expenses  
   a. of the retailer.  
   b. of the customers.  
   c. of the government.  
   d. that are not recognized by the retailer until they are submitted to the government.

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

85. Linda’s Boutique has total receipts for the month of $29,295 including sales taxes. If the sales tax rate is 5%, what are Linda’s sales for the month?  
   a. $27,831  
   b. $27,900  
   c. $29,295  
   d. It cannot be determined.

86. A cash register tape shows cash sales of $1,500 and sales taxes of $90. The journal entry to record this information is  
   a. Cash .................................................................  1,500  
       Sales ........................................................................  1,500  
       b. Cash .................................................................  1,590  
       Sales Tax Revenue ......................................................  90  
       Sales ........................................................................  1,500  
       c. Cash .................................................................  1,500  
       Sales Tax Expense ....................................................  90  
       Sales ........................................................................  1,590  
       d. Cash .................................................................  1,590  
       Sales ........................................................................  1,500  
       Sales Taxes Payable ..................................................  90

87. Tim’s Pharmacy has collected $600 in sales taxes during March. If sales taxes must be remitted to the state government monthly, what entry will Tim’s Pharmacy make to show the March remittance?  
   a. Sales Tax Expense .....................................................  600  
       Cash .........................................................................  600  
   b. Sales Taxes Payable ....................................................  600  
       Cash .........................................................................  600  
   c. Sales Tax Expense .....................................................  600  
       Sales Taxes Payable ..................................................  600  
   d. No entry required.

88. Langer Company does not ring up sales taxes separately on the cash register. Total receipts for February amounted to $28,600. If the sales tax rate is 4%, what amount must be remitted to the state for February’s sales taxes?  
   a. $1,144  
   b. $1,100  
   c. $1,716  
   d. It cannot be determined.
89. Any balance in an unearned revenue account is reported as a(n)
   a. current liability.
   b. long-term debt.
   c. revenue.
   d. unearned liability.

90. Stanley Company typically sells subscriptions on an annual basis, and publishes six times
    a year. The magazine sells 60,000 subscriptions in January at $15 each. What entry is
    made in January to record the sale of the subscriptions?
   a. Subscriptions Receivable ..................................................... 900,000
      Subscription Revenue ................................................. 900,000
   b. Cash ..................................................................................... 900,000
      Unearned Subscription Revenue................................. 900,000
   c. Subscriptions Receivable ..................................................... 150,000
      Unearned Subscription Revenue................................. 150,000
   d. Prepaid Subscriptions .......................................................... 900,000
      Cash ............................................................................ 900,000

91. Milton Company issued a four-year interest-bearing note payable for $300,000 on January
    1, 2007. Each January the company is required to pay $75,000 on the note. How will this
    note be reported on the December 31, 2008 balance sheet?
   a. Long-term debt, $300,000.
   b. Long-term debt, $225,000.
   c. Long-term debt, $150,000; Long-term debt due within one year, $75,000.
   d. Long-term debt, $225,000; Long-term debt due within one year, $75,000.

92. Janis Knot has a large consulting practice. New clients are required to pay one-half of the
    consulting fees up front. The balance is paid at the conclusion of the consultation. How
    does Knot account for the cash received at the end of the engagement?
   a. Cash
      Unearned Consulting Revenue
   b. Cash
      Earned Consulting Revenue
   c. Prepaid Consulting Fees
      Earned Consulting Revenue
   d. No entry is required when the engagement is concluded.

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

94. Working capital is
   a. current assets plus current liabilities.
   b. current assets minus current liabilities.
   c. current assets divided by current liabilities.
   d. current assets multiplied by current liabilities.
95. The current ratio is
   a. current assets plus current liabilities.
   b. current assets minus current liabilities.
   c. current assets divided by current liabilities.
   d. current assets multiplied by current liabilities.

96. A contingent liability need only be disclosed in the financial statement notes when the likelihood of the contingency is
   a. reasonably possible.
   b. probable.
   c. remote.
   d. unlikely.

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

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

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

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

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

102. The accounting for warranty costs is based on the
    a. going concern principle.
    b. matching principle.
    c. conservatism principle.
    d. objectivity principle.
103. Warranty expenses are reported on the income statement as
   a. administrative expenses.
   b. part of cost of goods sold.
   c. contra-revenues.
   d. selling expenses.

Use the following information for questions 104–105.

Neer Company sells 2,000 units of its product for $500 each. The selling price includes a one-year warranty on parts. It is expected that 3% of the units will be defective and that repair costs will average $50 per unit. In the year of sale, warranty contracts are honored on 40 units for a total cost of $2,000.

104. What amount should Neer Company accrue on December 31 for estimated warranty costs?
   a. $3,000
   b. $2,000
   c. $1,000
   d. $15,000

105. What amount will be reported on Neer Company's balance sheet as Estimated Warranty Liability on December 31, 2008?
   a. $2,000
   b. $3,000
   c. $1,000
   d. It cannot be determined.

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

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

108. Current liabilities generally appear
   a. after long-term debt on the balance sheet.
   b. in decreasing order of magnitude on the balance sheet.
   c. in order of maturity on the balance sheet.
   d. in increasing order of magnitude on the balance sheet.

109. Which of the following employees would likely receive a salary instead of wages?
   a. Store clerk
   b. Factory employee
   c. Sales manager
   d. Manual laborer
110. The total compensation earned by an employee is called
   a. take-home pay.
   b. net pay.
   c. net earnings.
   d. gross earnings.

111. Which one of the following payroll taxes does not result in a payroll tax expense for the employer?
   a. FICA tax
   b. Federal income tax
   c. Federal unemployment tax
   d. State unemployment tax

112. Sue Stein's regular rate of pay is $12 per hour with one and one-half times her regular rate for any hours which exceed 40 hours per week. She worked 48 hours last week. Therefore, her gross wages were
   a. $576.
   b. $480.
   c. $624.
   d. $864.

113. Assuming a FICA tax rate of 8% on the first $90,000 in wages, and a federal income tax rate of 20% on all wages, what would be an employee's net pay for the year if he earned $100,000 for the year?
   a. $92,800
   b. $72,000
   c. $80,000
   d. $72,800

114. Most companies involved in interstate commerce are required to compute overtime at
   a. the worker's regular hourly wage.
   b. 1.25 times the worker's regular hourly wage.
   c. 1.5 times the worker's regular hourly wage.
   d. 2.5 times the worker's regular hourly wage.

115. Sue Rice has worked 44 hours this week. She worked in excess of 8 hours each day. Her regular hourly wage is $15 per hour. What are Sue's gross wages for the week? (The company Sue works for is in compliance with the Fair Labor Standards Act.)
   a. $660
   b. $690
   c. $990
   d. $720

116. FICA taxes do not provide workers with
   a. life insurance.
   b. supplemental retirement.
   c. employment disability.
   d. medical benefits.
117. Employee payroll deductions include each of the following except
   a. federal unemployment taxes.
   b. federal income taxes.
   c. FICA taxes.
   d. insurance, pension plans, and union dues.

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

119. The amount of income taxes withheld from employees is dependent on each of the following except the
   a. employee's gross earnings.
   b. employee's net pay.
   c. length of the pay period.
   d. number of allowances claimed by the employee.

Use the following information for questions 120–123.

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>$24,000</td>
</tr>
<tr>
<td>FICA taxes withheld</td>
<td>1,100</td>
</tr>
<tr>
<td>Income taxes withheld</td>
<td>5,000</td>
</tr>
<tr>
<td>Medical insurance deductions</td>
<td>900</td>
</tr>
<tr>
<td>Federal unemployment taxes</td>
<td>64</td>
</tr>
<tr>
<td>State unemployment taxes</td>
<td>432</td>
</tr>
</tbody>
</table>

120. The journal entry to record the monthly payroll on April 30 would include a
    a. debit to Salaries Expense for $24,000.
    b. credit to Salaries Payable for $24,000.
    c. debit to Salaries Payable for $24,000.
    d. debit to Salaries Expense for $17,000.

121. The entry to record the payment of net payroll would include a
    a. debit to Salaries Payable for $16,504.
    b. debit to Salaries Payable for $17,000.
    c. debit to Salaries Payable for $15,900.
    d. credit to Cash for $18,100.

122. The entry to record accrual of Main Company's payroll taxes would include a
    a. debit to Payroll Tax Expense for $496.
    b. debit to Payroll Tax Expense for $1,596.
    c. credit to FICA Taxes Payable for $2,200.
    d. credit to Payroll Tax Expense for $496.
123. The entry to record the accrual of federal unemployment taxes would include a
   a. credit to Federal Unemployment Taxes Payable for $64.
   b. debit to Federal Unemployment Taxes Expense for $64.
   c. credit to Payroll Tax Expense for $64.
   d. debit to Federal Unemployment Taxes Payable for $64.

Use the following information for questions 124–127.

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

Salaries $20,000
FICA taxes withheld 1,533
Income taxes withheld 4,400
Medical insurance deductions 800
Federal unemployment taxes 160
State unemployment taxes 1,000

124. The journal entry to record the monthly payroll on June 30 would include a
   a. debit to Salaries Expense for $20,000.
   b. credit to Salaries Payable for $20,000.
   c. debit to Salaries Payable for $20,000.
   d. debit to Salaries Expense for $13,267.

125. The entry to record the payment of net payroll would include a
   a. debit to Salaries Payable for $12,107.
   b. debit to Salaries Payable for $13,267.
   c. debit to Salaries Payable for $12,267.
   d. credit to Cash for $12,267.

126. The entry to record accrual of Lane Company’s payroll taxes would include a
   a. debit to Payroll Tax Expense for $2,693
   b. credit to Payroll Tax Expense for $2,693
   c. credit to FICA Taxes Payable for $1,160.
   d. credit to Payroll Tax Expense for $1,160.

127. The entry to record the accrual of federal unemployment taxes would include a
   a. credit to Federal Unemployment Taxes Payable for $160.
   b. credit to Federal Unemployment Taxes Expense for $160.
   c. credit to Payroll Tax Expense for $160.
   d. debit to Federal Unemployment Taxes Payable for $160.

128. Which one of the following payroll taxes is not withheld from an employee’s wages because it is not levied on the employee?
   a. Federal income tax
   b. Federal unemployment tax
   c. State income tax
   d. FICA tax
129. By January 31 following the end of a calendar year, an employer is required to provide each employee with a(n)
   a. state unemployment tax form.
   b. federal unemployment tax form 940.
   c. wage and tax statement form W-2.
   d. employee's withholding allowance certificate form W-4.

130. Which of the following payroll taxes are usually filed and remitted annually?
   a. Federal unemployment taxes
   b. FICA taxes
   c. State unemployment taxes
   d. Federal and state unemployment taxes

131. The tax that is paid equally by the employer and employee is the
   a. federal income tax.
   b. federal unemployment tax.
   c. state unemployment tax.
   d. FICA tax.

132. The effective federal unemployment tax rate is usually
   a. 6.2%.
   b. 0.8%.
   c. 5.4%.
   d. 8.0%.

133. The treasurer's department is responsible for
   a. approving the payroll.
   b. maintaining payroll records.
   c. preparing payroll tax returns.
   d. signing payroll checks.

134. The payroll is paid by the
   a. personnel department.
   b. payroll department.
   c. cashier.
   d. treasurer's department.

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

136. The paid absence that is most commonly accrued is
   a. voting leave.
   b. vacation time.
   c. maternity leave.
   d. disability leave.
a137. Blake Company has ten employees who each earn $160 per day. If they accumulate vacation time at the rate of 1.5 vacation days for each month worked, the amount of vacation benefits that should be accrued at the end of the month is
   a. $160.
   b. $1,600.
   c. $2,400.
   d. $240.

a138. An employer's estimated cost for post-retirement benefits for its employees should be
   a. recognized as an expense when paid.
   b. recognized as an expense during the employees' work years.
   c. recognized as an expense during the employees' retirement years.
   d. charged to the goodwill account because providing employees with benefits generates employee goodwill.

Additional Multiple Choice Questions

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

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

141. On August 1, 2008, a company borrowed cash and signed a one-year interest-bearing note on which both the face value and interest are payable on August 1, 2009. How will the note payable and the related interest be classified in the December 31, 2008, balance sheet?
   Note Payable  |  Interest Payable
   a. Current liability  |  Noncurrent liability
   b. Noncurrent liability  |  Current liability
   c. Current liability  |  Current liability
   d. Noncurrent liability  |  Not shown

142. Companies report current liabilities on the balance sheet in
   a. alphabetical order.
   b. order of maturity.
   c. random order.
   d. order of magnitude.
143. A contingency need not be recorded nor disclosed when
   a. it is probable the contingency will happen and the amount can be reasonably estimated.
   b. it is probable the contingency will happen but the amount cannot be reasonably estimated.
   c. it is reasonably possible the contingency will happen and the amount can be reasonably estimated.
   d. the possibility of the contingency happening is remote.

144. A contingent liability is recorded when the likelihood of the contingency is
   a. remote.
   b. reasonably possible.
   c. probable.
   d. nil or zero.

145. Mike Kohl, an employee of Spottswood Company, has gross earnings for the month of October of $6,000. FICA taxes are 8% of gross earnings, federal income taxes amount to $952 for the month, state income taxes are 2% of gross earnings, and Mike authorizes voluntary deductions of $15 per month to the United Fund. What is the net pay for Mike Kohl?
   a. $4,442
   b. $4,433
   c. $4,448
   d. $4,452

146. A payroll record that accumulates the gross earnings, deductions, and net pay by employee for each pay period is the
   a. withholding tax table.
   b. employee earnings record.
   c. payroll register.
   d. Wage and Tax Statement.

147. The journal entry to record the payroll for Marcus Garvey Company for the week ending January 8, would probably include a
   a. credit to Office Salaries.
   b. credit to Wages Expense.
   c. debit to Federal Income Taxes Payable.
   d. credit to FICA Taxes Payable.

148. Employer payroll taxes include all of the following except
   a. FICA taxes.
   b. federal unemployment taxes.
   c. state unemployment taxes.
   d. federal income taxes.

149. The record that provides a cumulative summary of each employee’s gross earnings, payroll deductions, and net pay during the year and is required to be maintained to comply with state and local federal law is the
   a. register.
   b. employee earnings record.
   c. statement of earnings.
   d. wage and tax statement.
11 - 24  Test Bank for Accounting Principles, Eighth Edition

150. Post-retirement benefits include all of the following except
    a. health care.
    b. life insurance.
    c. pensions.
    d. vacation benefits.

Answers to Multiple Choice Questions

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>39</td>
<td>b</td>
<td>55</td>
<td>c</td>
<td>71</td>
<td>d</td>
<td>87</td>
<td>b</td>
<td>103</td>
<td>d</td>
<td>119</td>
<td>b</td>
<td>a135</td>
<td>d</td>
</tr>
<tr>
<td>40</td>
<td>b</td>
<td>56</td>
<td>a</td>
<td>72</td>
<td>d</td>
<td>88</td>
<td>b</td>
<td>104</td>
<td>a</td>
<td>120</td>
<td>a</td>
<td>a136</td>
<td>b</td>
</tr>
<tr>
<td>41</td>
<td>a</td>
<td>57</td>
<td>c</td>
<td>73</td>
<td>d</td>
<td>89</td>
<td>a</td>
<td>105</td>
<td>c</td>
<td>121</td>
<td>b</td>
<td>a137</td>
<td>c</td>
</tr>
<tr>
<td>42</td>
<td>a</td>
<td>58</td>
<td>b</td>
<td>74</td>
<td>c</td>
<td>90</td>
<td>b</td>
<td>106</td>
<td>c</td>
<td>122</td>
<td>b</td>
<td>a138</td>
<td>b</td>
</tr>
<tr>
<td>43</td>
<td>c</td>
<td>59</td>
<td>b</td>
<td>75</td>
<td>b</td>
<td>91</td>
<td>c</td>
<td>107</td>
<td>c</td>
<td>123</td>
<td>a</td>
<td>139</td>
<td>c</td>
</tr>
<tr>
<td>44</td>
<td>c</td>
<td>60</td>
<td>a</td>
<td>76</td>
<td>a</td>
<td>92</td>
<td>b</td>
<td>108</td>
<td>b</td>
<td>124</td>
<td>a</td>
<td>140</td>
<td>c</td>
</tr>
<tr>
<td>45</td>
<td>c</td>
<td>61</td>
<td>c</td>
<td>77</td>
<td>a</td>
<td>93</td>
<td>d</td>
<td>109</td>
<td>c</td>
<td>125</td>
<td>b</td>
<td>141</td>
<td>c</td>
</tr>
<tr>
<td>46</td>
<td>d</td>
<td>62</td>
<td>c</td>
<td>78</td>
<td>c</td>
<td>94</td>
<td>b</td>
<td>110</td>
<td>d</td>
<td>126</td>
<td>a</td>
<td>142</td>
<td>d</td>
</tr>
<tr>
<td>47</td>
<td>c</td>
<td>63</td>
<td>b</td>
<td>79</td>
<td>b</td>
<td>95</td>
<td>c</td>
<td>111</td>
<td>b</td>
<td>127</td>
<td>a</td>
<td>143</td>
<td>d</td>
</tr>
<tr>
<td>48</td>
<td>c</td>
<td>64</td>
<td>c</td>
<td>80</td>
<td>d</td>
<td>96</td>
<td>a</td>
<td>112</td>
<td>c</td>
<td>128</td>
<td>b</td>
<td>144</td>
<td>c</td>
</tr>
<tr>
<td>49</td>
<td>a</td>
<td>65</td>
<td>b</td>
<td>81</td>
<td>d</td>
<td>97</td>
<td>b</td>
<td>113</td>
<td>d</td>
<td>129</td>
<td>c</td>
<td>145</td>
<td>b</td>
</tr>
<tr>
<td>50</td>
<td>b</td>
<td>66</td>
<td>c</td>
<td>82</td>
<td>b</td>
<td>98</td>
<td>b</td>
<td>114</td>
<td>c</td>
<td>130</td>
<td>a</td>
<td>146</td>
<td>c</td>
</tr>
<tr>
<td>51</td>
<td>b</td>
<td>67</td>
<td>d</td>
<td>83</td>
<td>b</td>
<td>99</td>
<td>d</td>
<td>115</td>
<td>b</td>
<td>131</td>
<td>d</td>
<td>147</td>
<td>d</td>
</tr>
<tr>
<td>52</td>
<td>b</td>
<td>68</td>
<td>c</td>
<td>84</td>
<td>d</td>
<td>100</td>
<td>c</td>
<td>116</td>
<td>a</td>
<td>132</td>
<td>b</td>
<td>148</td>
<td>d</td>
</tr>
<tr>
<td>53</td>
<td>a</td>
<td>69</td>
<td>d</td>
<td>85</td>
<td>b</td>
<td>101</td>
<td>c</td>
<td>117</td>
<td>a</td>
<td>133</td>
<td>d</td>
<td>149</td>
<td>b</td>
</tr>
<tr>
<td>54</td>
<td>b</td>
<td>70</td>
<td>b</td>
<td>86</td>
<td>d</td>
<td>102</td>
<td>b</td>
<td>118</td>
<td>a</td>
<td>134</td>
<td>d</td>
<td>a150</td>
<td>d</td>
</tr>
</tbody>
</table>

BRIEF EXERCISES

BE 151

Saldana Sales Company has the following selected accounts after posting adjusting entries:

- Accounts Payable $62,000
- Notes Payable, 3-month 50,000
- Accumulated Depreciation—Equipment 14,000
- Notes Payable, 5-year, 6% 80,000
- Payroll Tax Expense 4,000
- Interest Payable 3,000
- Mortgage Payable 120,000
- Sales Tax Payable 38,000

Instructions
Prepare the current liability section of Saldana Sales Company's balance sheet, assuming $20,000 of the mortgage is payable next year.
Solution 151  (5 min.)

SALDANA SALES COMPANY

Current Liabilities
Notes Payable, 3-month $50,000
Accounts Payable 62,000
Sales Tax Payable 38,000
Current portion of long-term debt 20,000
Interest Payable 3,000
Total Current Liabilities $173,000

BE 152
Identify which of the following would be classified as current liabilities as of December 31, 2008:
1. Wages Payable
2. Bonds Payable, maturing in 2013
3. Interest Payable, due July 1, 2009
4. Taxes Payable
5. Notes Payable, due January 30, 2010

Solution 152  (3 min.)
Current liabilities include: Wages Payable, Taxes Payable, Interest Payable

BE 153
On December 1, Destin Corporation borrowed $5,000 on a 90-day, 6% note. Prepare the entries to record the issuance of the note, the accrual of interest at year end, and the payment of the note.

Solution 153  (5 min.)
Dec 1 Cash .......................................................... 5,000
Notes Payable ................................................. 5,000
Dec 31 Interest Expense ............................................ 25
Interest Payable ................................................ 25
Mar 1 Interest Expense ............................................ 50
Interest Payable ................................................ 25
Notes Payable ................................................. 5,000
Cash .......................................................... 5,075

BE 154
During December 2008, Fashion Vixen Publishing sold 2,500 12-month annual magazine subscriptions at a rate of $30 each. The first issues were mailed in February 2009. Prepare the entries on Fashion Vixen’s books to record the sale of the subscriptions and the mailing of the first issues.
Solution 154  (4 min.)

December 2008  
Cash.............................................................. 75,000
Unearned Revenue............................................. 75,000
(2,500 × $30 = $75,000)

February 2009  
Unearned Revenue.................................................. 6,250
Subscription Revenue..................................... 6,250
($75,000 ÷ 12 = $6,250)

BE 155

Landen Company had cash sales of $54,250 (including taxes) for the month of June. Sales are subject to 8.5% sales tax. Prepare the entry to record the sale.

Solution 155  (3 min.)

Cash............................................................................................. 54,250
Sales Revenue.................................................................... 50,000
Sales Tax Payable............................................................... 4,250

BE 156

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

Solution 156  (3 min.)

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

BE 157

Mary Stine’s regular hourly wage rate is $12, and she receives an hourly rate of $18 for work in excess of 40 hours. During a March pay period, Mary works 47 hours. Mary’s federal income tax withholding is $70, and she has no voluntary deductions. Compute Mary Stine’s gross earnings and net pay for the pay period.
Solution 157  (4 min.)

Gross earnings:

- Regular pay (40 × $12) $480.00
- Overtime pay (7 × $18) 126.00

Gross earnings $606.00

Less:

- FICA taxes payable ($606 × 8%) $48.48
- Federal income taxes payable 70.00

Net pay $487.52

BE 158

Data for Mary Stine are presented in BE 157. Prepare the journal entry to record Mary’s pay for the period. Use March 15 for the end of the pay period.

Solution 158  (5 min.)

Mar. 15 Wages Expense ................................................................. 606.00
FICA Taxes Payable ($606 × 8%) ........................................ 48.48
Federal Income Taxes Payable ........................................ 70.00
Wages Payable ........................................................... 487.52

BE 159

In February, gross earnings in Zenn Company totaled $50,000. All earnings are subject to 8% FICA taxes, 5.4% state unemployment taxes, and 0.8% federal unemployment taxes. Prepare the entry to record January payroll tax expense.

Solution 159  (4 min.)

Jan. 31 Payroll Tax Expense .......................................................... 7,100
FICA Taxes Payable ($50,000 × 8%) .................................. 4,000
Federal Unemployment Taxes Payable ($50,000 × .8%) 400
State Unemployment Taxes Payable ($50,000 × 5.4%).. 2,700

*BE 160

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

*Solution 160  (3 min.)

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

Ex. 161
Stiner Company has the following selected accounts after posting adjusting entries:

- Accounts Payable $45,000
- Notes Payable, 3-month $80,000
- Accumulated Depreciation—Equipment $14,000
- Payroll and Benefits Payable $27,000
- Notes Payable, 5-year, 8% $30,000
- Estimated Warranty Liability $34,000
- Payroll Tax Expense $6,000
- Interest Payable $3,000
- Mortgage Payable $200,000
- Sales Tax Payable $16,000

Instructions
(a) Prepare the current liability section of Stiner Company's balance sheet, assuming $25,000 of the mortgage is payable next year. (List liabilities in magnitude order, with largest first.)

(b) Comment on Stiner’s liquidity, assuming total current assets are $450,000.

Solution 161 (10 min.)
(a) STINER COMPANY

<table>
<thead>
<tr>
<th>Current Liabilities</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes payable, 3-month</td>
<td>$80,000</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>45,000</td>
</tr>
<tr>
<td>Estimated warranty liability</td>
<td>34,000</td>
</tr>
<tr>
<td>Payroll and benefits payable</td>
<td>27,000</td>
</tr>
<tr>
<td>Long-term debt due within one year</td>
<td>25,000</td>
</tr>
<tr>
<td>Sales tax payable</td>
<td>16,000</td>
</tr>
<tr>
<td>Interest payable</td>
<td>3,000</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td><strong>$230,000</strong></td>
</tr>
</tbody>
</table>

(b) The liquidity position looks favorable. If all current liabilities are paid out of current assets, there would still be $220,000 of current assets. The current assets are almost twice the current liabilities and it appears as though Stiner Company has sufficient current resources to meet current obligations when due.

Ex. 162
Prepare the necessary journal entries for the following transactions:
(a) On September 1, Lore Company borrowed $150,000 from National Bank on a 6-month, 8% note.
(b) On December 31, Lore Company accrued interest (assume adjusting entries are only made at the end of the year).
Solution 162  (5 min.)
(a) Cash ............................................................................................... 150,000
   Notes Payable ............................................................................... 150,000
(b) Interest Expense ............................................................................. 4,000
   Interest Payable ($150,000 × .08 × 4/12) ....................................... 4,000

Ex. 163
On March 1, Felton Company borrows $90,000 from Ottawa State Bank by signing a 6-month, 8%, interest-bearing note.

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

Solution 163  (10 min.)
(a) March 1 Cash ............................................................................ 90,000
   Notes Payable .................................................... 90,000
(b) June 30 Interest Expense.......................................................... 2,400
   Interest Payable ($90,000 × 8% × 4 ÷ 12) ....................... 2,400
(c) Aug. 31 Interest Expense.......................................................... 1,200
   Interest Payable.................................................. 1,200
(d) Sept. 1 Notes Payable ............................................................. 90,000
   Interest Payable........................................................... 3,600
   Cash ................................................................... 93,600

Ex. 164
Tom Byers sells televisions with a 2-year warranty. Past experience indicates that 2% of the units sold will be returned during the warranty period for repairs. The average cost of repairs under warranty is estimated to be $50 per unit. During 2008, 7,000 units were sold at an average price of $400. During the year, repairs were made on 55 units at a cost of $2,400.

Instructions
Prepare journal entries to record the repairs made under warranty and estimated warranty expense for the year.
Solution 164  (5 min.)

Estimated Warranty Liability ................................................................. 2,400
Repair Parts/Wages Payable ............................................................... 2,400
(To record cost of honoring 55 warranties)

Warranty Expense ................................................................................ 7,000
Estimated Warranty Liability ............................................................. 7,000
(To accrue estimated warranty costs on 140 warranty contracts)
Number of units sold 7,000
Estimated rate of defective units × 2%
Total estimated defective units 140
Average warranty repair costs $ 50
Estimated Warranty Expense $7,000

Ex. 165

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

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

Solution 165  (5 min.)

(a) $1,575,000 ÷ 1.05 = $1,500,000 is the total sales revenue.

(b) $1,500,000 × .05 = $75,000 is the state sales tax liability.

Journal Entry:
Accounts Receivable ................................................................. 1,575,000
Sales Revenue ............................................................................... 1,500,000
State Sales Tax Payable ............................................................... 75,000

Ex. 166

Stevens Company does not segregate sales and sales taxes on its cash register. Its register total for the month is $259,700, which includes a 6% sales tax.

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

Solution 166  (5 min.)

Sales taxes payable = $14,700  [$259,700 − ($259,700 ÷ 1.06)]
Cash........................................................................................................ 259,700
Sales Taxes Payable ............................................................................. 14,700
Sales ($259,700 ÷ 1.06)........................................................................ 245,000
Ex. 167

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

1. The company is the defendant in an employee discrimination lawsuit involving $50,000 of damages. Legal counsel believes it is unlikely that the company will have to pay any damages.

2. December 31st is a Friday. The employees of the company have been paid on Monday, December 27th for the previous week which ended on Friday, December 24th. The company employs 30 people who earn $100 per day and 15 people who earn $150 per day. All employees work 5-day weeks.

3. The company is a defendant in a $500,000 product liability lawsuit. Legal counsel believes the company probably will have to pay the amount requested.

4. Employees are entitled to one day's vacation for each month worked. All employees described above in (2.) worked the month of December.

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

Solution 167  (10 min.)

1. No entry—loss is not probable.

2. Wages Expense ................................................................. 26,250
   Wages Payable ................................................................. 26,250
   
   \[
   \begin{align*}
   30 \times $100 \times 5 &= $15,000 \\
   15 \times $150 \times 5 &= 11,250 \\
   \text{Total} &= $26,250 \\
   \end{align*}
   \]

3. Loss from Lawsuit ............................................................... 500,000
   Estimated Liability from Lawsuit ........................................ 500,000

4. Vacation Benefits Expense ............................................... 5,250
   Vacation Benefits Payable \([(30 \times $100) + (15 \times $150)] \ldots 5,250

Ex. 168

Based on the following information, compute the (1) current ratio and (2) working capital.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>$240,000</td>
</tr>
<tr>
<td>Total assets</td>
<td>900,000</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>80,000</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>500,000</td>
</tr>
</tbody>
</table>
Solution 168  (4 min.)

(1) Current ratio = 3.0:1  ($240,000 ÷ $80,000)
(2) Working capital = $160,000  ($240,000 – $80,000)

Ex. 169

Linda Estes sells exercise machines for home use. The machines carry a 2-year warranty. Past experience indicates that 6% of the units sold will be returned during the warranty period for repairs. The average cost of repairs under warranty is $60 for labor and $90 for parts per unit. During 2008, 2,500 exercise machines were sold at an average price of $800. During the year, 60 of the machines that were sold were repaired at the average price per unit.

Instructions

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

Solution 169  (10 min.)

(a) Labor on repaired units:  $60 × 60 = $3,600
Parts on repaired units:  $90 × 60 = $5,400

Estimated Warranty Liability .........................................................  9,000
Repair Parts ..................................................................................  5,400
Wages Payable ...........................................................................  3,600
(To record honoring of 60 warranty contracts)

(b) 2,500 units × 6% = 150 units
150 units × $150 = $22,500

Warranty Expense .................................................................  22,500
Estimated Warranty Liability .....................................................  22,500
(To record estimated cost of honoring 150 warranty contracts)

The balance in Estimated Warranty Liability at year end is $13,500 ($22,500 – $9,000), which equals the expected cost of honoring the 90 remaining expected warranty contracts.

Ex. 170

Golf World Publications publishes a golf magazine for women. The magazine sells for $3 a copy on the newsstand. Yearly subscriptions to the magazine cost $24 per year (12 issues). During December 2008, Golf World Publications sells 9,000 copies of the golf magazine at newsstands and receives payment for 15,000 subscriptions for 2009. Financial statements are prepared monthly.

Instructions

(a) Prepare the December 2008 journal entries to record the newsstand sales and subscriptions received.
(b) Prepare the necessary adjusting entry on January 31, 2009. The January 2009 issue has been mailed to subscribers.
Solution 170  (5 min.)

(a)  Cash.............................................................................................. 27,000  
     Newsstand Sales..................................................................  27,000  
     Cash (or Accounts Receivable)..................................................... 360,000  
     Unearned Subscription Revenue .........................................  360,000

(b) $360,000 ÷ 12 months = $30,000  
     Unearned Subscription Revenue .................................................. 30,000  
     Subscription Revenue ..........................................................  30,000

Ex. 171

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

Instructions

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

Solution 171  (5 min.)

(a)  Warranty Expense  (10,000 × 3% × $50)...................................... 15,000  
     Estimated Warranty Liability.................................................  15,000

(b)  Estimated Warranty Liability.......................................................... 14,000  
     Repair Parts, Wages Payable, etc. ......................................  14,000

Ex. 172

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

1. During December, Dobson Company sold 2,000 units of a product that carries a 60-day warranty. The sales for this product totaled $100,000. The company expects 4% of the units to need repair under the warranty and it estimates that the average repair cost per unit will be $15.

2. The company has been sued by a disgruntled employee. Legal counsel believes that it is reasonably possible that the company will have to pay $200,000 in damages.

3. The company has been named as one of several defendants in a $400,000 damage suit. Legal counsel believes it is unlikely that the company will have to pay any damages.

4. Employees earn vacation pay at a rate of 1 day per month. During December, ten employees qualify for vacation pay. Their average daily wage is $90 per employee.

Instructions

Prepare adjusting entries, if required, for each of the four items.
Solution 172  (10 min.)

1. 2,000 units × 4% = 80 units expected to be defective
   80 units × $15 = $1,200

   Warranty Expense .................................................................................. 1,200
   Estimated Warranty Liability .................................................................... 1,200

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

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

4. 10 employees × $90 × 1 day = $900

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

Ex. 173

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

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

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

Solution 173  (4 min.)

1. PAY  5. PRE
2. T  6. H
3. H  7. T
4. PRE  8. PAY
Ex. 174

Sue Wiebe's regular hourly wage is $14 an hour. She receives overtime pay at the rate of time and a half. The FICA tax rate is 8%. Sue is paid every two weeks. For the first pay period in January, Sue worked 86 hours of which 6 were overtime hours. Sue's federal income tax withholding is $300 and her state income tax withholding is $100. Sue has authorized that $50 be withheld from her check each pay period for savings bonds.

Instructions
Compute Sue Wiebe's gross earnings and net pay for the pay period showing each payroll deduction in arriving at net pay.

Solution 174  (10 min.)

Gross Earnings:

Regular Pay: 80 hours × $14/hr. = $1,120
Overtime Pay: $14 × 1.5 = $21/hr. for overtime
6 overtime hours × $21 126
Total Gross Earnings: $1,246

Net Pay:

Gross Earnings $1,246.00
Less: Federal Income Taxes Payable $300.00
State Income Taxes Payable 100.00
FICA Taxes Payable 99.68
Savings Bonds Payable 50.00
Net Pay $696.32

Ex. 175

Stacy Cooper's regular hourly wage rate is $12, and she receives a wage of 1 1/2 times her regular rate for work in excess of 40 hours. During a June pay period, Stacy worked 46 hours. Stacy's federal income tax withholding is $58, and her only voluntary deduction is $25 for group hospitalization insurance.

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

Solution 175  (6 min.)

(a) Gross earnings:

Regular pay (40 × $12) = $480
Overtime pay (6 × $18) = 108 $588

(b) Gross earnings $588.00
Less: Federal income taxes $58.00
FICA taxes ($588 × 8%) 47.04
Group insurance 25.00 130.04
Net pay $457.96
Ex. 176

Oates Company's payroll for the week ending January 15 amounted to $95,000 for Office Salaries and $150,000 for Store Wages. None of the employees has reached the earnings limits specified for federal or state employer payroll taxes. The following deductions were withheld from employees' salaries and wages:

- **Federal Income Tax** $50,000
- **State Income Tax** $9,000
- **FICA Taxes** $19,600
- **Union Dues** $2,700
- **United Fund** $1,800

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

**Instructions**

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

**Solution 176** (8 min.)

Jan. 15

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office Salaries Expense</td>
<td>95,000</td>
</tr>
<tr>
<td>Store Wages Expense</td>
<td>150,000</td>
</tr>
<tr>
<td>Federal Income Taxes Payable</td>
<td>50,000</td>
</tr>
<tr>
<td>State Income Taxes Payable</td>
<td>9,000</td>
</tr>
<tr>
<td>FICA Taxes Payable</td>
<td>19,600</td>
</tr>
<tr>
<td>Union Dues Payable</td>
<td>2,700</td>
</tr>
<tr>
<td>United Fund Payable</td>
<td>1,800</td>
</tr>
<tr>
<td>Salaries and Wages Payable</td>
<td>161,900</td>
</tr>
<tr>
<td>(To record payroll for the week ending January 15)</td>
<td></td>
</tr>
</tbody>
</table>

15

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll Tax Expense</td>
<td>34,790</td>
</tr>
<tr>
<td>FICA Taxes Payable</td>
<td>19,600</td>
</tr>
<tr>
<td>Federal Unemployment Taxes Payable</td>
<td>1,960</td>
</tr>
<tr>
<td>State Unemployment Taxes Payable</td>
<td>13,230</td>
</tr>
<tr>
<td>(To record employer's payroll taxes on January 15 payroll)</td>
<td></td>
</tr>
</tbody>
</table>

**Ex. 177**

Ann Finley had earned (accumulated) salary of $86,000 through November 30. Her December salary amounted to $7,800. Jim Lane began employment on December 1 and will be paid his first month's salary of $5,000 on December 31. Income tax withholding for December for each employee is as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Ann Finley</th>
<th>Jim Lane</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Income Tax</td>
<td>$2,180</td>
<td>$990</td>
</tr>
<tr>
<td>State Income Tax</td>
<td>390</td>
<td>180</td>
</tr>
</tbody>
</table>
Ex. 177 (cont.)

The following payroll tax rates are applicable:

- FICA tax on first $90,000 8%
- FUTA tax on first $7,000 6.2%*
- SUTA tax on first $7,000 5.4%

*Less a credit equal to the state unemployment contribution

Instructions

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

Solution 177 (15 min.)

Dec. 31 Salaries Expense ................................................................. 12,800
Federal Income Taxes Payable...................................  3,170
State Income Taxes Payable.......................................  570
FICA Taxes Payable....................................................  720
Salaries Payable..........................................................  8,340
(To record December 31 payroll)

FICA Taxes
Ann Finley ($90,000 – $86,000 = $4,000 × 8%) = $320
Jim Lane ($5,000 × 8%) = 400
$720

Payroll Tax Expense ............................................................ 1,030
FICA Taxes Payable....................................................  720
Federal Unemployment Taxes Payable ......................  40
State Unemployment Taxes Payable ..........................  270
(To record employer's share of payroll taxes for Dec. 31 payroll)

(FUTA and SUTA are based only on Jim Lane's salary of $5,000.)

Ex. 178

Assume that the payroll records of Gibbs Oil Company provided the following information for the weekly payroll ended November 30, 2008.

<table>
<thead>
<tr>
<th>Employee</th>
<th>Hours Worked</th>
<th>Hourly Pay Rate</th>
<th>Federal Income Tax</th>
<th>Union Dues</th>
<th>Year-to-Date Earnings Through Previous Week</th>
</tr>
</thead>
<tbody>
<tr>
<td>C. White</td>
<td>44</td>
<td>$45</td>
<td>$362</td>
<td>$9</td>
<td>$91,000</td>
</tr>
<tr>
<td>J. Ward</td>
<td>46</td>
<td>10</td>
<td>65</td>
<td>5</td>
<td>23,200</td>
</tr>
<tr>
<td>K. Hurt</td>
<td>39</td>
<td>20</td>
<td>118</td>
<td>—</td>
<td>5,700</td>
</tr>
<tr>
<td>M. King</td>
<td>42</td>
<td>22</td>
<td>169</td>
<td>7</td>
<td>49,500</td>
</tr>
</tbody>
</table>
Ex. 178  (cont.)

Additional information: All employees are paid overtime at time and a half for hours worked in excess of 40 per week. The FICA tax rate is 8% for the first $90,000 of each employee’s annual earnings. The employer pays unemployment taxes of 6.2% (5.4% for state and .8% for federal) on the first $7,000 of each employee’s annual earnings.

**Instructions**

(a) Prepare the payroll register for the pay period.

(b) Prepare general journal entries to record the payroll and payroll taxes.

---

**Solution 178**  (20 min.)

(a) **GIBBS OIL COMPANY**

**Payroll Register**

*For the Week Ending November 26, 2008*

<table>
<thead>
<tr>
<th>Employee</th>
<th>Total Hours</th>
<th>Reg. Hours</th>
<th>Overtime Hours</th>
<th>Gross Pay</th>
<th>FICA</th>
<th>FIT</th>
<th>Union</th>
<th>Net Pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>C. White</td>
<td>44</td>
<td>1,800</td>
<td>270</td>
<td>2,070</td>
<td>362</td>
<td>9</td>
<td>1,699.00</td>
<td></td>
</tr>
<tr>
<td>J. Ward</td>
<td>46</td>
<td>400</td>
<td>90</td>
<td>490</td>
<td>65</td>
<td>5</td>
<td>380.80</td>
<td></td>
</tr>
<tr>
<td>K. Hurt</td>
<td>39</td>
<td>780</td>
<td>—</td>
<td>780</td>
<td>62.40</td>
<td>118</td>
<td>599.60</td>
<td></td>
</tr>
<tr>
<td>M. King</td>
<td>42</td>
<td>880</td>
<td>66</td>
<td>946</td>
<td>75.68</td>
<td>169</td>
<td>694.32</td>
<td></td>
</tr>
</tbody>
</table>

**Total**

<table>
<thead>
<tr>
<th>Code</th>
<th>Hours</th>
<th>Gross Pay</th>
<th>FICA</th>
<th>FIT</th>
<th>Union</th>
<th>Net Pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings</td>
<td>426</td>
<td>4,286.00</td>
<td>177.28</td>
<td>714</td>
<td>21</td>
<td>3,373.72</td>
</tr>
</tbody>
</table>

(b) Nov. 30 **Wages Expense**............................................................. 4,286.00

- **FICA Taxes Payable** ............................................. 177.28
- **Federal Income Taxes Payable** ............................ 714.00
- **Union Dues Payable** ............................................. 21.00
- **Wages Payable** ..................................................... 3,373.72

(To record weekly payroll)

30 **Payroll Tax Expense**.............................................................. 225.64

- **SUTA Taxes Payable ($780 × .054)** ..................... 42.12
- **FUTA Taxes Payable ($780 × .008)** ..................... 6.24
- **FICA Taxes Payable** ............................................. 177.28

(To record employer’s payroll taxes)

---

**Ex. 179**

Diane Jenks earns a salary of $8,000 per month during the year. FICA taxes are 8% on the first $90,000 of gross earnings. Federal unemployment insurance taxes are 6.2% of the first $7,000; however, a credit is allowed equal to the state unemployment insurance taxes of 5.4% on the $7,000. During the year, $27,300 was withheld for federal income taxes and $5,700 was withheld for state income taxes.
Ex. 179 (cont.)

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

**Solution 179** (8 min.)

(a) Salary Expense ................................................................. 96,000
    Federal Income Taxes Payable ........................................ 27,300
    State Income Taxes Payable ........................................... 5,700
    FICA Taxes Payable ($90,000 × .08) ......................... 7,200
    Salary and Wages Payable ............................................. 55,800

(b) Payroll Tax Expense ......................................................... 7,634
    FICA Taxes Payable ....................................................... 7,200
    Federal Unemployment Taxes Payable ............................. 56
    State Unemployment Taxes Payable ................................. 378

(c) The total cost of employment is: $96,000 + $7,634 = $103,634.

Ex. 180

Tolan Company had the following payroll data for the year:

- Gross earnings of employees $640,000
- Employee earnings not subject to FICA tax 140,000
- Employee earnings not subject to FUTA or SUTA tax 490,000

Assuming the following:
- FICA tax rate 8%
- State Unemployment tax rate 5.4% (SUTA)
- Federal Unemployment tax rate .8% (FUTA)

**Instructions**
Compute Tolan’s payroll tax expense for the year. Make a summary journal entry to record the payroll tax expense.
Solution 180  (15 min.)

Compute FICA tax: $640,000
Less: Exempted wages 140,000
Wages subject to FICA tax 500,000
Applicable tax rate .08
FICA tax expense $  40,000

Compute FUTA tax: $640,000
Less: Exempted wages 490,000
Wages subject to FUTA tax 150,000
Applicable tax rate .008
FUTA tax expense $    1,200

Wages subject to SUTA tax $150,000
Applicable tax rate .054
SUTA tax expense $    8,100

Journal entry to record payroll tax expense:
Payroll Tax Expense .................................................................  49,300
FICA Taxes Payable ..............................................................  40,000
FUTA Taxes Payable ..............................................................  1,200
SUTA Taxes Payable ..............................................................  8,100

Ex. 181

In March, gross earnings of Milner Company totaled $150,000. All earnings are subject to FICA taxes, 5.4% state unemployment taxes, and 0.8% federal unemployment taxes.

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

Solution 181  (6 min.)

(a) Payroll tax expense = $21,300 [(8% + 5.4% + 8%) × $150,000]

(b) Payroll Tax Expense ................................................................. 21,300
FICA Taxes Payable ($150,000 × 8%) .............................................. 12,000
State Unemployment Taxes Payable .............................................. 8,100*
Federal Unemployment Taxes Payable .......................................... 1,200**

* $150,000 × 5.4%
** $150,000 × 0.8%
The following payroll liability accounts are included in the ledger of Clements Company on January 1, 2008:

- FICA Taxes Payable $1,750
- Federal Income Taxes Payable 4,000
- State Income Taxes Payable 665
- Federal Unemployment Taxes Payable 175
- State Unemployment Taxes Payable 1,190
- Union Dues Payable 400
- Health Insurance Premium Payable 5,000
- Christmas Club Savings Payable 1,500

In January, the following transactions occurred:

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

Instructions
Journalize the January transactions

Solution 182 (15 min.)

- Jan. 9 Health Insurance Premium Payable ......................... 5,000
  Cash .......................................................... 5,000
- 11 FICA Taxes Payable .................................................. 1,750
  Federal Income Taxes Payable ....................................... 4,000
  Cash .......................................................... 5,750
- 14 Union Dues Payable .................................................. 400
  Cash .......................................................... 400
- 18 State Income Taxes Payable ........................................ 665
  Cash .......................................................... 665
- 21 Federal Unemployment Taxes Payable ......................... 175
  Cash .......................................................... 175
  State Unemployment Taxes Payable .................. 1,190
  Cash .......................................................... 1,190
- 22 Christmas Club Savings Payable .............................. 1,500
  Cash .......................................................... 1,500
COMPLETION STATEMENTS

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

184. Liabilities are classified on the balance sheet as being ______________ liabilities or ______________ liabilities.

185. Obligations in written form are called ______________ and usually require the borrower to pay interest.

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

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

188. The current ratio is current assets divided by ______________.

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

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

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

192. A payroll tax expense which is borne entirely by the employer is the federal ______________ tax.

Answers to Completion Statements

183. one, operating cycle 188. current liabilities
184. current, long-term 189. probable, reasonably estimable
185. notes payable 190. FICA, federal income
186. face value, interest 191. FICA
187. current liability 192. unemployment
MATCHING

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

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

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

Answers to Matching

1. F  6. A
2. B  7. C
5. D  10. E
SHORT-ANSWER ESSAY QUESTIONS

S-A E 194
A company will incur product repair costs in the future if products that it sells currently under warranty are brought in for repair during the warranty period. The company will also incur bad debts expense in the future if customers who buy on credit currently are unable to pay their accounts. Are the accounting procedures for these two contingent costs (warranty expense and bad debt expense) related or guided by the same accounting principle? Briefly explain.

Solution 194
The accounting procedures for both warranty expense and bad debt expense are guided by the matching principle. Accounting for warranty expense requires matching the expense with the period in which the revenue is earned for the product under warranty. Similarly, accounting for bad debt expense matches the bad debt expense resulting from credit sales with the period when revenue from the credit sale is earned.

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

S-A E 195
An employee's net pay consists of gross pay less mandatory and voluntary payroll deductions. Identify the mandatory payroll deductions and give two or three examples of common voluntary deductions. Are these deductions recognized as payroll expenses by the employer? What type of payroll expenses does the employer incur related to having a payroll?

Solution 195
Mandatory payroll deductions include both federal and state income taxes and also FICA taxes. Among the deductions that are voluntary payroll deductions are United Way contributions, savings account deposits, insurance payments, and pension plan contributions.

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

S-A E 196 (Ethics)
Quaney Company maintains two separate accounts payable computer systems. One is known to all the users, and is used to process payments to vendors. Employees enter the vendor code, or the name and address of new vendors, the amount, the account, and so on. The other system is a secret one. It is used to cross-check the vendors against an approved vendor list. If a vendor is not listed as approved, the payment process is halted. Internal audit employees seek to verify the existence of a bona fide claim by the vendor. All inquiries are made at the top management level, and very discreetly. No one but top management, the internal audit staff, and the Board of Directors of the company is even aware of the second system.

Required:
Is it ethical for a company to have a secret system like the one described? Explain.
Solution 196

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

S-A E 197 (Communication)

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

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

Required:
Prepare a note explaining to Mr. Grant how Al-Fab might calculate a cost per employee that is greater than gross wages. Explain in general terms only. Do not use any calculations.

Solution 197

(letterhead)

Dear Mr. Grant:

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

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

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

(signature)