##### CHAPTER 10

**CURRENT LIABILITIES AND PAYROLL**

### **20-MINUTE QUIZ #1**

Circle the correct answer.

**True/False**

1. Accounts payable may also be referred to as trade payables True False

and are the result of goods that have been purchased on credit.

2. Cash payments received in advance of goods being provided True False

or services being performed should still be recorded as revenues.

3. A current liability to the federal government arises when a True False

business sells an item and collects HST on it.

4. A company with an operating line of credit has been True False

pre-authorized by the bank to borrow money, up to a

certain amount.

5. A refrigerator is sold in year 1 and is guaranteed for True False

three years. A repair is made in year 2. The company’s

entry upon making the repair would include a debit to

estimated warranty liability.

6. Interest expense should not be recorded prior to True False

maturity.

7. Current maturities of long-term debt are identified True False

on the balance sheet as current liabilities.

8. Under ASPE a contingent liability is recorded if it is True False

likely and the amount can be reasonably estimated.

9. Property tax is an example of a contingent liability. True False

10. If the total receipts of $5,300 include 13% HST, True False

the HST is equal to $518.

11. Current liabilities can be listed in order of liquidity. True False

12. An estimated liability should not be recorded True False

until the exact amount is known.

13. Canada Pension Plan has no annual maximum True False

pensionable earnings.

14. Net pay for hourly workers with no overtime, True False

can be determined by applying the hourly rate of

pay to the number of hours worked.

15. Employers are required to pay 1.4 times employment True False

insurance premiums that are paid by the employees.

**Multiple Choice**

1. When a company is overdrawn at the bank as a result of using its line of credit, the amount would be shown on the balance sheet as

a) a current asset with a debit balance.

b) a current asset with a credit balance.

c) a contra account to accounts receivable.

d) a current liability.

2. Recording accrued interest on a note payable would include a

a) credit to cash

b) debit to notes payable.

c) credit to interest payable.

d) credit to interest expense.

3. Current maturities of long-term debt

a) require adjusting entries at the end of the period.

b) should always include accrued interest.

c) are considered a current liability.

d) all of the above

4. Payroll costs create expenses to the employer for all of the following **except**

a) Income Tax.

b) Employment Insurance.

c) Canada Pension Plan.

d) Workplace Health, Safety, and Compensation.

5. Which of the following is an estimated liability?

a) Notes Payable

b) Redemption Rewards Liability

c) Provincial Sales Tax Payable

d) Unearned Revenue

6. Recording estimated warranty expense in the year of the sale is best known as

a) consistency of accounting policies.

b) full disclosure of relevant information.

c) matching expenses with revenue.

d) recording all material items in the Financial Statements.

7. Customer loyalty programs are used to attract and keep customers and when accounting for these programs all of the following statements are true, **except** for

a) a contra sales account is used to show increases in revenues.

b) a liability needs to be estimated.

c) a customer’s future savings results in a company liability.

d) customer loyalty programs may also be referred to as incentive programs.

8. All of the following statements are true **except**

a) gross earnings minus total deductions equals net pay.

b) employers must contribute an amount to Canada Pension Plan that matches the amount withheld from employees.

c) the Workplace Health Safety and Compensation is funded by contributions made by both employers and employees.

d) employers must use the accrual method when accounting for post-employment benefits.

### **ANSWERS TO 20-MINUTE QUIZ #1**

**True/False**

1. True

2. False

3. True

4. True

5. True

6. False

7. True

8. True

9. False

10. False

11. True

12. False

13. False

14. False

15. True

**Multiple Choice**

1. d.

2. c

3. c

4. a

5. b

6. c

7. a

8. c

**20-MINUTE QUIZ #2**

Bean Company has the following selected transactions:

Jan 1 Signed a $100,000, six-month, 5% note payable. Interest is payable at maturity.

Jan 15 Sales made equal to $300,000 in revenue.

Jan 28 The payroll for the month is salaries of $75,000. CPP contributions and EI premiums withheld are $3,712 and $1,372, respectively. A total of $15,000 in income taxes is withheld. The salaries are paid on Feb 1.

The following adjustment data are noted at the end of the month:

1. Interest expense should be accrued on the note.

2. Employer payroll costs are recorded.

3. Some sales were made under warranty. Of the units sold under warranty this month, 250 are expected to become defective. Repair costs are estimated to be $30 per defective unit.

**Instructions:** Prepare month end adjusting journal entries for Bean Company.

**Answer:**

Jan 31 Interest Expense 417

Interest Payable 417

To accrue interest on note payable

($100,000 x 5% x 1/12)

Jan 31 Employee Benefits Expense 5,633

CPP Payable 3,712

EI Payable ($1372 x 1.4) 1,921

To record employee benefit costs

Jan 31 Warranty Expense 7,500

Warranty Liability 7,500

To record estimated product warranty

(250 x $30)