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ch13 Student:  1. Some liabilities are not contractual obligations and may not be payable in cash. True False 2. Amounts withheld from employees in connection with payroll often represent liabilities to third parties. True False 3. A customer advance produces a liability that is satisfied when the product or service is provided. True False 4. Long-term debt that is callable by the creditor in the upcoming year should be classified as a current liability only if the debt is expected to be called.

True False 5. The concept of substance over form influences the classification of obligations expected to be refinanced. True False 6. Under IFRS, a liability that is refinanced after the balance sheet date but before the financial statements are issued would typically be classified as a current liability. True False 7. Warranty expense is recorded along with the related liability in the reporting period in which the product under warranty is sold. True False 8. For a loss contingency to be accrued, the claim must have been made before the accounting period ended.

True False 9. A company should accrue a liability for a loss contingency if it is at least reasonably possible that assets have been impaired and the amount of potential loss can be reasonably estimated. True False 10. A disclosure note is required for all material loss contingencies for which the probability of loss is reasonably possible. True False 11. Under IFRS, the term " probable" indicates a threshold of probability that is substantially higher than a 50/ 50 chance. True False 12.

Under IFRS, if it is probable that a contingent liability will result in a future payment but there is a range of equally likely amounts that will be paid, the midpoint of the range should be accrued as a loss. True False 13. The cost of promotional offers should be recorded as expenses in the accounting period when the offers are redeemed by customers. True False 14. Unlike the Social security tax there is no maximum wage base for the Medicare portion of the FICA tax. True False 15. State and Federal Unemployment Taxes (SUTA and FUTA) must be withheld from employees' wages. True False 16.

Match each phrase with the correct term placing the letter designating the best term in the space provided by the phrase. \_\_ Liabilities when received. \_\_ \_\_ Confirming event is likely to occur. \_\_ A loss contingency accrued in the period of\_\_ related sales. \_\_ Most common temporary financing\_\_ arrangement. \_\_ \_\_ Requires collateral. \_\_ 1. Short-term note 2. Warranty liability 3. Advances from customers 4. Secured loan 5. Probable 17. Match each phrase with the correct term placing the letter designating the best term in the space provided by the phrase. 1. Accrued liabilities 2. Discount on notes payable 3.

Interest payable 4. Sales tax payable 5. Callable Due on demand. Contra liability. A third party liability. Accrues with passage of time. Expenses incurred but not yet paid. \_\_\_\_ \_\_\_\_ \_\_\_\_ \_\_\_\_ \_\_\_\_ 18. Match each phrase with the correct term placing the letter designating the best term in the space provided by the phrase. 1. Reasonably possible 2. Noncommitted lines of credit 3. Customer deposits 4. Interest paid on debt 5. Gain contingencies Liabilities until refunded. More than remote but less than likely. Face amount x rate x time. Not recorded until realized. Informal borrowing agreements. \_\_\_\_ \_\_\_\_ \_\_\_\_ \_\_\_\_ \_\_\_\_ 19.

Match each phrase with the correct term placing the letter designating the best term in the space provided by the phrase. 1. Unasserted claims 2. Factoring 3. Subsequent events 4. Accounting liabilities 5. Effective interest \_\_ Exceeds the stated rate on discounted notes. \_\_ \_\_ May include items that are not legal liabilities. \_\_ \_\_ Sales of receivables. \_\_ Evaluated for recognition only if an unfavorable\_\_ outcome is probable. \_\_ Occur in the current year before prior year financial\_\_ statements are issued. \_\_ 20. Match each phrase with the correct term placing the letter designating the best term in the space provided by the phrase. . Noninterestbearing notes 2. Loss contingencies 3. Committed lines of credit 4. Accounts payable 5. Pledging arrangements \_\_ Use accounts receivable as collateral. \_\_ \_\_ Often require compensating balance. \_\_ \_\_ Only formal credit instrument is the invoice. \_\_ \_\_ Effective interest higher than stated interest. \_\_ Recorded if probable and amount is known or\_\_ reasonably estimable. \_\_ 21. Match each phrase with the correct term placing the letter designating the best term in the space provided by the phrase. Present value of interest plus present value\_\_ of principal. \_\_ \_\_ Required for contingencies. \_\_ \_\_ Payable with current assets. \_ Short-term debt to be refinanced\_\_ with long-term bonds payable. \_\_ \_\_ Avoids registration with SEC. \_\_ 1. Current liabilities 2. Usual valuation of long-term liabilities 3. Disclosure notes 4. Long-term liabilities 5. Commercial paper 22. Indicate (by letter) the way each of the items listed below should be reported in a balance sheet at December 31, 2011. 1. Not reported 2. Disclosure note only 3. Liability 4. Liability A material gain contingent on a future event that appears\_\_ exceedingly likely. \_\_ A penalty assessment that probably will be asserted by\_\_ the EPA, in which case a determinable payment is probable. \_ Unassessed penalty with a reasonable possibility of being\_\_ asserted, in which case a determinable payment is probable. \_\_ An extremely likely loss due to an event that occurred\_\_ previously and whose amount is unknown but estimable. \_\_ 23. Match each phrase with the correct term placing the letter designating the best term in the space provided by the phrase. \_ \_ How present values affect the measurement\_ of contingent liabilities under IFRS. \_ \_ \_ \_ Definition of " probable" under IFRS. \_ \_ how IFRS refers to an accrued liability\_ that would generally be referred to as\_ an " accrued contingent loss" under U.

S. GAAP. \_ \_ \_ The amount IFRS would accrue given a range\_ of equally likely outcomes. \_ \_ \_ \_ Treatment of contingent gains under IFRS. \_ 1. mid-point of the range 2. provision 3. more likely than not 4. contingent gains are not accrued 5. report at present value whenever time value ofmoneyis material 24. Indicate (by letter) the way each of the items listed below should be reported in a balance sheet at December 31, 2011. 1. Current liability 2. Current liability \_\_ Estimated warranty cost. \_\_ A material gain contingent on a future event that appears\_\_ extremely likely to occur in three months. \_ Unasserted assessment of penalty that probably will be 3. Not asserted, in which case there would probably be a loss in six\_\_ reported months. \_\_ 4. Unasserted assessment of penalty with a reasonable possibility Disclosure of being asserted, in which case there would probably be a loss in\_\_ note only 13 months. \_\_ A determinable loss from a past event that is contingent on 5. Current a future event that appears extremely likely to occur in three\_\_ liability months. \_\_ 25. Indicate (by letter) the way each of the items listed below should be reported in a balance sheet at December 31, 2011. 26.

Indicate (by letter) the way each of the items listed below should be reported in a balance sheet at December 31, 2011. 27. The most common type of liability is: A. B. C. D. One that comes into existence due to a loss contingency. One that must be estimated. One that comes into existence due to a gain contingency. One to be paid in cash and for which the amount and timing are known. 28. Which of the following is not a characteristic of a liability? A. B. C. D. It represents a probable, future sacrifice of economic benefits. It must be payable in cash. It arises from present obligations to other entities.

It results from past transactions or events. 29. Which of the following is the best definition of a current liability? A. An obligation payable within one year. B. An obligation payable within one year of the balance sheet date. C. An obligation payable within one year or within the normal operating cycle, whichever is longer. D. An obligation expected to be satisfied with current assets or by the creation of other current liabilities. 30. Which of the following is not a liability? A. B. C. D. An unused line of credit. Estimated income taxes. Sales tax collected from customers. Advances from customers. 31.

Current liabilities normally are recorded at their: A. B. C. D. Present value. Cost. Maturity amount. Expected value. 32. Current liabilities are normally recorded at the amount expected to be paid rather than at their present value. This practice can be supported by GAAP according to the concept of: A. B. C. D. Matching. Consistency. Materiality. Conservatism. 33. The key accounting considerations relating to accounts payable are: A. Determining their existence and ensuring that they are recorded in the appropriate accounting period. B. Determining their present value and ensuring that they are recorded in the appropriate accounting period.

C. Determining their existence and determining the correct amount. D. Determining the present value of the principal and the amount of the interest. 34. Classifying liabilities as either current or long-term helps creditors assess: A. B. C. D. Profitability. The relative risk of a firm's liabilities. The degree of a firm's liabilities. The amount of a firm's liabilities. 35. When cash is received from customers in the form of a refundable deposit, the cash account is increased with a corresponding increase in: A. B. C. D. A current liability. Revenue. Shareholders' equity. Paid-in capital. 36.

A discount on a noninterest-bearing note payable is classified in the balance sheet as: A. B. C. D. An asset. A component of shareholders' equity. A contingent liability. A contra liability. 37. The rate of interest printed on the face of a note payable is called the: A. B. C. D. Yield rate. Effective rate. Market rate. Stated rate. 38. The rate of interest that actually is incurred on a note payable is called the: A. B. C. D. Face rate. Contract rate. Effective rate. Stated rate. 39. On October 31, 2011, Simeon Builders borrowed $16 million cash and issued a 7-month, noninterestbearing note.

The loan was made by StarFinanceCo. whose stated discount rate is 8%. Sky's effective interest rate on this loan is: A. B. C. D. More than the stated discount rate of 8%. Less than the stated discount rate of 8%. Equal to the stated discount rate of 8%. Unrelated to the stated discount rate of 8%. 40. Jane's Donut Co. borrowed $200, 000 on January 1, 2011, and signed a two-year note bearing interest at 12%. Interest is payable in full at maturity on January 1, 2013. In connection with this note, Jane's should report interest expense at December 31, 2011, in the amount of: A. B. C. D. $0. $24, 000. 48, 000. $50, 880. 41. What is the effective interest rate (rounded) on a 3-month, noninterest-bearing note with a stated rate of 12% and a maturity value of $200, 000? A. B. C. D. 12. 4%. 12. 0 %. 11. 5%. 3. 0%. 42. On September 1, 2011, Hiker Shoes issued a $100, 000, 8-month, noninterest-bearing note. The loan was made by Second Commercial Bank whose stated discount rate is 9%. Hiker's effective interest rate on this loan (rounded) is: A. B. C. D. 9. 0%. 9. 5%. 9. 6%. 9. 7%. 43. Universal Travel Inc. borrowed $500, 000 on November 1, 2011, and signed a 12-month note bearing interest at 6%.

Interest is payable in full at maturity on October 31, 2012. In connection with this note, Universal Travel Inc. should report interest payable at December 31, 2011, in the amount of: A. B. C. D. $8, 000. $30, 000. $5, 000. $25, 000. 44. Knique Shoes issued a $100, 000, 8-month, " noninterest-bearing note. " The loan was made by Second Commercial Bank whose stated " discount rate" is 9%. The effective interest rate on this loan (rounded) is: A. B. C. D. 9. 28% 9. 49% 9. 50% 9. 57% 45. Oklahoma Oil Corp. paid interest of $785, 000 during 2011, and the interest payable account decreased by $125, 000.

What was interest expense for the year? A. B. C. D. $890, 000. $660, 000. $555, 000. $785, 000. 46. On June 1, 2011, Dirty Harry Co. borrowed cash by issuing a 6-month noninterest-bearing note with a maturity value of $500, 000 and a discount rate of 6%. What is the carrying value of the note as of September 30, 2011? A. B. C. D. $525, 000. $300, 000. $495, 000. $475, 000. 47. At times, businesses require advance payments from customers that will be applied to the purchase price when goods are delivered or services provided. These customer advances represent: A. B. C. D. Liabilities until the product or service is provided.

A component of shareholders' equity. Long-term assets until the product or service is provided. Revenue upon receipt of the advance payment. 48. M Corp. has an employee benefit plan for compensated absences that gives employees 15 paid vacation days. Vacation days can be carried over indefinitely. Employees can elect to receive payment in lieu of vacation days. At December 31, 2011, M's unadjusted balance of liability for compensated absences was $30, 000. M estimated that there were 200 vacation days available at December 31, 2011. M's employees earn an average of $150 per day.

In its December 31, 2011, balance sheet, what amount of liability for compensated absences is M required to report? A. B. C. D. $0. $30, 000. $225, 000. $450, 000. 49. Which of the following generally is associated with accounts payable? A. B. C. D. Option A Option B Option C Option D 50. Lake Co. receives nonrefundable advance payments with special orders for containers constructed to customer specifications. Related information for 2011 is as follows ($ in millions): What amount should Lake report as a current liability for advances from customers in its Dec. 31, 2011, balance sheet? A. B. C. D. $0. $80. $125. $170. 51.

All of the following but one represent collections for third parties. Which one of the following is not a collection for a third party? A. B. C. D. Sales tax payable. Customer deposits. Employee insurance deductions. Social security taxes deductions. 52. When a deposit on returnable containers is forfeited, the firm holding the deposit will experience: A. B. C. D. A decrease in cost of goods sold. An increase in current liabilities. An increase in accounts receivable. An increase in revenue. 53. B Corp. has an employee benefit plan for compensated absences that gives employees 10 paid vacation days and 10 paid sick days.

Both vacation and sick days can be carried over indefinitely. Employees can elect to receive payment in lieu of vacation days; however, no payment is given for sick days not taken. At December 31, 2011, B's unadjusted balance of liability for compensated absences was $42, 000. B estimated that there were 300 vacation days and 150 sick days available at December 31, 2011. B's employees earn an average of $200 per day. In its December 31, 2011, balance sheet, what amount of liability for compensated absences is B required to report? A. B. C. D. $60, 000. $84, 000. $90, 000. 144, 000. 54. On January 1, 2011, G Corporation agreed to grant its employees two weeks vacation each year, with the stipulation that vacations earned each year can be taken the following year. For the year ended December 31, 2011, G's employees each earned an average of $800 per week. 500 vacation weeks earned in 2011 were not taken during 2011. Wage rates for employees rose by an average of 5 percent by the time vacations actually were taken in 2012. What is the amount of G's 2012 wages expense related to 2011 vacation time? A. B. C. D. $0 $20, 000 $400, 000 $420, 000 55.

Revenue associated with gift card sales should be recognized: A. When the gift card is sold. B. No later than the last day of the operating period in which the gift card is delivered to the customer. C. When the probability of gift card redemption is viewed as remote. D. Under no circumstances, as gift cards are not themselves a delivered product, but rather a selling technique. 56. All else equal, a large increase in unearned revenue in the current period would be expected to produce what effect on revenue in a future period? A. Large increase, because unearned revenue becomes revenue when revenue is earned. B.

Large decrease, because unearned revenue implies that less revenue has been earned, which reduces future revenue. C. No effect, because unearned revenue is a liability, so payment will use assets rather than providing revenue. D. Large decrease, because unearned revenue indicates collection problems that will reduce net revenues in future periods. 57. Peterson Photoshop sold $1000 of gift cards on a special promotion on October 15, 2011, and sold $1500 of gift cards on another special promotion on November 15, 2011. Of the cards sold in October, $100 were redeemed in October, $250 in November, and $300 in December.

Of the cards sold in November, $150 were redeemed in November and $350 were redeemed in December. Peterson views the probability of redemption of a gift card as remote if the card has not been redeemed within two months. At 12/31/2011, Peterson would show an unearned revenue account for their gift cards with a balance of: A. B. C. D. $0. $1000. $1350. $1500. 58. When a product or service is delivered for which a customer advance has been previously received, the appropriate journal entry includes: A. B. C. D. A debit to a revenue and a credit to a liability account. A debit to a evenue and a credit to an asset account. A debit to an asset and a credit to a revenue account. A debit to a liability and a credit to a revenue account. 59. Clark's Chemical Company received customer deposits on returnable containers in the amount of $100, 000 during 2011. Twelve percent of the containers were not returned. The deposits are based on the container cost marked up 20%. What is cost of goods sold relative to this forfeiture? A. B. C. D. $0. $2, 000. $10, 000. $14, 400. 60. In May of 2011, Raymond Financial Services became involved in a penalty dispute with the EPA.

At December 31, 2011, the environmental attorney for Raymond indicated that an unfavorable outcome to the dispute was probable. The additional penalties were estimated to be $770, 000 but could be as high as $1, 170, 000. After the year-end, but before the 2011 financial statements were issued, Raymond accepted an EPA settlement offer of $900, 000. Raymond should have reported an accrued liability on its December 31, 2011, balance sheet of: A. B. C. D. $770, 000. $900, 000. $970, 000. $1, 170, 000. 61. Slotnick Chemical received customer deposits on returnable containers in the amount of $300, 000 during 2011.

Fifteen percent of the containers were not returned. The deposits are based on the container cost marked up 20%. How much profit did Slotnick realize on the forfeited deposits? A. B. C. D. $0. $7, 500. $9, 000. $45, 000. 62. Which of the following is not a current liability? A. B. C. D. Accounts payable. A note payable due in 2 years. Accrued interest payable. Sales tax payable. 63. Short-term obligations can be reported as long-term liabilities if: A. B. C. D. The firm has a long-term line of credit. The firm has tentative plans to issue long-term bonds. The firm intends to and has the ability to refinance as long-term.

The firm has the ability to refinance on a long-term basis. 64. Of the following, which typically would not be classified as a current liability? A. B. C. D. Estimated liability from cash rebate program. A long-term note payable maturing within the coming year. Rent revenue received in advance. A six-month bank loan to be paid with the proceeds from the sale of common stock. 65. Large, highly rated firms sometimes sell commercial paper: A. B. C. D. To borrow funds at a lower rate than through a bank. To earn a profit on the paper. To avoid paperwork. Because the interest rate is locked in by the Federal Reserve Board. 6. Which of the following situations would not require that long-term liabilities be reported as current liabilities on a classified balance sheet? A. B. C. D. The long-term debt is callable by the creditor. The creditor has the right to demand payment due to a contractual violation. The long-term debt matures within the upcoming year. All of the above require the current classification. 67. A long-term liability should be reported as a current liability in a classified balance sheet if the long-term debt A. B. C. D. is callable by the creditor. is secured by adequate collateral. ill be refinanced with stock. will be refinanced with debt. 68. On December 31, 2011, L, Inc. had a $1, 500, 000 note payable outstanding, due July 31, 2012. L borrowed the money to finance construction of a new plant. L planned to refinance the note by issuing long-term bonds. Because L temporarily had excess cash, it prepaid $500, 000 of the note on January 23, 2012. In February 2012, L completed a $3, 000, 000 bond offering. L will use the bond offering proceeds to repay the note payable at its maturity and to pay construction costs during 2012. On March 13, 2012, L issued its 2011 financial statements.

What amount of the note payable should L include in the current liabilities section of its December 31, 2011, balance sheet? A. B. C. D. $0 $500, 000 $1, 000, 000 $1, 500, 000 69. Liabilities payable within the coming year are classified as long-term liabilities if refinancing is completed before date of issuance of the financial statements under A. B. C. D. US GAAP. IFRS. Either U. S. GAAP and IFRS. Neither U. S. GAAP and IFRS. 70. Kline Company refinanced current debt as long-term debt on January 5, 2012. Kline's fiscal year ended on December 31, 2011, and its financial statements will be issued sometime in early March, 2012.

Under IFRS, how would Kline classify the debt on its December 31, 2011 balance sheet? A. In the " mezzanine" between current and non-current liabilities. B. Kline would not classify the debt as current or noncurrent, but rather would write a disclosure note explaining the circumstances. C. As a noncurrent liability. D. As a current liability. 71. Branch Company, a building materials supplier, has $18, 000, 000 of notes payable due April 12, 2012. At December 31, 2011, Branch signed an agreement with First Bank to borrow up to $18, 000, 000 to refinance the notes on a long-term basis.

The agreement specified that borrowings would not exceed 75% of the value of the collateral that Branch provided. At the date of issue of the December 31, 2011, financial statements, the value of Branch's collateral was $20, 000, 000. On its December 31, 2011, balance sheet, Branch should classify the notes as follows: A. B. C. D. $15, 000, 000 long-term and $3, 000, 000 current liabilities. $4, 500, 000 short-term and $13, 500, 000 current liabilities. $18, 000, 000 of current liabilities. $18, 000, 000 of long-term liabilities. 72. Other things being equal, most managers would prefer to report liabilities as noncurrent rather than current.

The logic behind this preference is that the long-term classification permits the company to report: A. B. C. D. Higher working capital and a higher inventory turnover. Lower working capital and a higher current ratio. Higher working capital and a higher current ratio. Higher working capital and a lower debt to equity ratio. 73. Footnote disclosure is required for material potential losses when the loss is at least reasonably possible: A. B. C. D. Only if the amount is known. Only if the amount is known or reasonably estimable. Unless the amount is not reasonably estimable. Even if the amount is not reasonably estimable. 4. Gain contingencies usually are recognized in a company's income statement when: A. B. C. D. Realized. The amount can be reasonably estimated. The gain is reasonably possible and the amount can be reasonable estimated. The gain is probable and the amount can be reasonably estimated. 75. A company should accrue a loss contingency only if the likelihood that a liability has been incurred is: A. B. C. D. More likely than not and the amount of the loss is known. At least reasonably possible and the amount of the loss is known. At least reasonably possible and the amount of the loss can be reasonably estimated.

Probable and the amount of the loss can be reasonably estimated. 76. A contingent loss should be reported in a footnote to the financial statements rather than being accrued if: A. B. C. D. The likelihood of a loss is remote. The incurrence of a loss is reasonably possible. The incurrence of a loss is more likely than not. The likelihood of a loss is probable. 77. Which of the following is a contingency that should be accrued? A. B. C. D. The company is being sued and a loss is reasonably possible and reasonably estimable. The company deducts life insurance premiums from employees' paychecks.

The company offers a two-year warranty and the expenses can be reasonably estimated. It is probable that the company will receive $100, 000 in settlement of a lawsuit. 78. A loss contingency should be accrued in a company's financial statements only if the likelihood that a liability has been incurred is: A. B. C. D. at least remotely possible and the amount of the loss is known. reasonably possible and the amount of the loss is known. reasonably possible and the amount of the loss can be reasonably estimated. probable and the amount of the loss can be reasonably estimated. 79.

Paul Company issues a product recall due to an apparently pre-existing and material defect discovered after the end of its fiscal year. Financial statements have not yet been issued. The action required of Paul Company for this reasonably estimable contingency for the year just ended is: A. B. C. D. To disclose it in a footnote. To accrue a long-term liability. To accrue the liability and explain it in a footnote. To do nothing relative to the contingency. 80. Accounting for costs of incentive programs for customer purchases: A. B. C. D. Requires probability estimation. Follows the matching principle.

Is a loss contingency situation. All of the above are correct. 81. Providing a monetary rebate program for purchasing a product: A. B. C. D. Is accounted for similarly to product warranties. Creates an expense for the seller in the period of sale. Creates a contingent liability for the seller at the time of sale. All of the above are correct. 82. The main difference between accounting for rebate and cash discount coupons is: A. B. C. D. The latter is not treated as an expense. Only the former creates a contingent liability when issued. The expense for the latter is usually deferred until redemption of the coupon.

There are no significant differences in accounting between the two. 83. Which of the following entail essentially the same accounting treatment? A. B. C. D. Coupons for cash rebates and coupons for other premiums Cents-off coupons and coupons for other premiums Cents-off coupons and coupons for cash rebates All of the above are correct. 84. Blue Co. can estimate the amount of loss that will occur if a foreign government expropriates some of the company's assets in that country. If the likelihood of expropriation is remote, a loss contingency should be A. B. C. D. Disclosed but not accrued as a liability. Disclosed and accrued as a liability.

Accrued as liability but not disclosed. Neither accrued as a liability nor disclosed. 85. Orange Co. can estimate the amount of loss that will occur if a foreign government expropriates some of the company's asset in that country. If expropriation is reasonably possible, a loss contingency should be A. B. C. D. Disclosed but not accrued as a liability. Disclosed and accrued as a liability. Accrued as liability but not disclosed. Neither accrued as a liability nor disclosed. 86. Red Co. can estimate the amount of loss that will occur if a foreign government expropriates some of the company's assets in that country.

If expropriation is probable, a loss contingency should be A. B. C. D. Disclosed but not accrued as a liability. Disclosed and accrued as a liability. Accrued as liability but not disclosed. Neither accrued as a liability nor disclosed. 87. Z Co. filed suit against W, Inc. in 2011 seeking damages for patent infringement. At December 31, 2011, legal counsel for Z believed that it was probable that Z would be successful against W for an estimated amount in the range of $30 million to $60 million, with each amount in that range considered equally likely.

Z was awarded $40 million in April 2012. Z should report this award in its 2011 financial statements, issued in March, 2012 as A. A receivable and unearned revenue of $40 million. B. A receivable and revenue of $40 million. C. A disclosure of a gain contingency of $40 million. D. A disclosure of a gain contingency of an undetermined amount in the range of $30 million to $60 million. 88. When a material gain contingency is probable and the amount of gain can be reasonably estimated, the gain should be: A. B. C. D. Reported in the income statement and disclosed.

Offset against shareholders' equity. Disclosed, but not recognized in the income statement. Neither recognized in the income statement nor disclosed. 89. Which of the following is a contingency that would most likely require accrual? A. B. C. D. Potential claims on extended warranties. Customer premium offers. Potential liability on a product where none have yet been sold. Sales tax payable. 90. The cost of customer premium offers should be charged to expense: A. B. C. D. When the related product is sold. When the premium offer expires.

Over the life cycle of the product to which the premium relates. When the premiums are claimed. 91. The accounting concept that requires recognition of a liability for customer premium offers is A. B. C. D. Periodicity. Conservatism. Historical cost. The matching principle. 92. Accounting for costs of incentive programs for frequent customer purchases involves: A. B. C. D. Recording an expense and a liability each period. Recording a liability and a reduction of revenue each period. Recording an expense and an asset reduction each period. Recording an expense and revenue each period. 93.

A customer of RoughEdge Sharpeners alleges that RoughEdge's new razor sharpener had a defect that resulted in serious injury to the customer. RoughEdge believes the customer has a 51% chance of winning the case, and that if the customer wins the case, there is a range of losses of between $1, 000, 000 and $3, 000, 000 in which any number is equally likely to occur. Under U. S. GAAP, RoughEdge should accrue a liability in the amount of: A. B. C. D. $0. $1, 000, 000. $2, 000, 000. $3, 000, 000. 94. A customer of Razor Sharpeners alleges that Razor's new razor sharpener had a defect that resulted in serious injury to the customer.

Razor believes the customer has a 51% chance of winning the case, and that if the customer wins the case, there is a range of losses of between $1, 000, 000 and $3, 000, 000 in which any number is equally likely to occur. Under IFRS, Razor should accrue a liability in the amount of: A. B. C. D. $0. $1, 000, 000. $2, 000, 000. $3, 000, 000. 95. Volt Electronics sells equipment that includes a three-year warranty. Repairs under the warranty are performed by an independent service company under contract with Volt. Based on prior experience, warranty costs are estimated to be $25 per item sold. Volt should recognize these warranty costs: A. B. C. D.

When the equipment is sold. When the repairs are performed. When payments are made to the service firm. Evenly over the life of the warranty. 96. Funzy Cereal includes one coupon in each package of Wheatos that it sells and offers a toy car in exchange for $1. 00 and 3 coupons. The cars cost Funzy $1. 50 each. Experience indicates that 40% of the coupons eventually will be redeemed. During the last month of 2011, the first month of the offer, Funzy sold 12 million boxes of Wheatos and 2. 4 million of the coupons were redeemed. What amount should Funzy report as a promotional expense for coupons on its December 31, 2011, income statement?

A. B. C. D. $0. $400, 000. $800, 000. $1, 200, 000. 97. Captain Cook Cereal includes one coupon in each package of Granola that it sells and offers a puzzle in exchange for $2. 00 and 3 coupons. The puzzles cost Captain Cook $3. 50 each. Experience indicates that 20% of the coupons eventually will be redeemed. During the last month of 2011, the first month of the offer, Captain Cook sold 6 million boxes of Granola and 900, 000 of the coupons were redeemed. What amount should Captain Cook report as a liability for coupons on its December 31, 2011, balance sheet? A. B. C. D. $0. $150, 000. 300, 000. $450, 000. 98. At the beginning of 2011, Angel Corporation began offering a 2-year warranty on its products. The warranty program was expected to cost Angel 4% of net sales. Net sales made under warranty in 2011 were $180 million. Fifteen percent of the units sold were returned in 2011 and repaired or replaced at a cost of $5. 3 million. The amount of warranty expense on Angel's 2011 income statement is: A. B. C. D. $5. 3 million. $7. 2 million. $10. 6 million. $27. 0 million. 99. During 2011, Deluxe Leather Goods sold 800, 000 reversible belts under a new sales promotional program.

Each belt carried one coupon, which entitles the customer to a $5. 00 cash rebate. Deluxe estimates that 70% of the coupons will be redeemed, even though only 350, 000 coupons had been processed during 2011. At December 31, 2011, Deluxe should report a liability for unredeemed coupons of: A. B. C. D. $560, 000. $1, 050, 000. $1, 225, 000. $1, 750, 000. In 2011, Holyoak Inc. offers a $20 cash rebate coupon to customers who purchased one of its new line of products. Holyoak sold 10, 000 of these products during the year. By year end of 2011, 7, 600 of the rebates had been claimed, and 7, 100 had been paid.

Holyoak's historical experience with such rebates indicates that 85% of customers claim the rebates. 100. What is the expense that Holyoak should report for its promotional rebates in its 2011 income statement? A. B. C. D. $142, 000 $152, 000 $170, 000 $200, 000 101. What is the rebate promotion liability that Holyoak should report in its December 31, 2011 balance sheet? A. B. C. D. $20, 000 $28, 000 $18, 000 None of the above is correct. 102. In the current year, Hanna Company reported warranty expense of $190, 000 and the warranty liability account increased by $20, 000. What were warranty expenditures during the year?

A. B. C. D. $190, 000. $170, 000. $210, 000. $0. 103. Panther Co. had a warranty liability of $350, 000 at the beginning of 2011, and $310, 000 at end of 2011. Warranty expense is based on 4% of sales, which were $50 million for the year. What were the warranty expenditures for 2011? A. B. C. D. $0. $1, 960, 000. $2, 000, 000. $2, 040, 000. 104. Carpenter Inc. had a balance of $80, 000 in its warranty liability account as of December 31, 2010. In 2011, Carpenter's warranty expenditures were $445, 000. Its warranty expense is calculated as 1% of sales. Sales in 2011 were $40 million.

What was the balance in the warranty liability account as of December 31, 2011? A. B. C. D. $35, 000. $425, 000. $125, 000. $480, 000. General Product Inc. shipped 100 million coupons in products it sold in 2011. The coupons are redeemable for thirty cents each. General anticipates that 70% of the coupons will be redeemed. The coupons expire on December 31, 2012. There were 45 million coupons redeemed in 2011, and 30 million redeemed in 2012. 105. What was General's coupon liability as of December 31, 2011? A. B. C. D. $7. 5 million. $13. 5 million. $16. 5 million. $21. 0 million. 106.

What was General's coupon promotion expense in 2011? A. B. C. D. $30. 0 million. $21. 0 million. $13. 5 million. $7. 5 million. 107. What was General's coupon promotional expense in 2012? A. B. C. D. Zero, since all the expense should be reflected in 2011. $1. 5 million. $7. 5 million. $9. 0 million. 108. During the year, L Leather Goods sold 1, 000, 000 reversible belts under a new sales promotional program. Each belt carried one coupon, which entitles the customer to a $4. 00 cash rebate. L estimates that 70% of the coupons will be redeemed, even though only 500, 000 coupons had been processed during the year.

At December 31, L should report a liability for unredeemed coupons of: A. B. C. D. $700, 000 $800, 000 $1, 000, 000 $2, 800, 000 109. Which of the following may create employer liabilities in connection with their payrolls? A. B. C. D. Employee withholding taxes Employee voluntary deductions Employee fringe benefits All of the above are correct. 110. Barbara Muller Services (BMS) pays its employees monthly. The payroll information listed below is for January, 2011, the first month of BMS's fiscal year. The journal entry to record payroll for the January 2011 pay period will include a debit to payroll tax expense of A.

B. C. D. $6, 120 $4, 960 $11, 080 $57, 880 111. Ontario Resources, a natural energy supplier, borrowed $80 million cash on November 1, 2011, to fund a geological survey. The loan was made by Quebec Banque under a short-term credit line. Ontario Resources issued a 9-month, 12% promissory note with interest payable at maturity. Ontario Resources' fiscal period is the calendar year. Required: (1. ) Prepare the journal entry for the issuance of the note by Ontario Resources. (2. ) Prepare the appropriate adjusting entry for the note by Ontario Resources on December 31, 2011. Show calculations. (3. Prepare the journal entry for the payment of the note at maturity. Show calculations. 112. On September 1, 2011, Triton Entertainment borrowed $24 million cash to fund a new Fun Park. The loan was made by Nevada Bank under a noncommitted short-term line of credit arrangement. Triton issued a 9month, 12% promissory note. Interest was payable at maturity. Triton's fiscal period is the calendar year. Required: 1. Prepare the journal entry for the issuance of the note by Triton. 2. Prepare the appropriate adjusting entry for the note by Triton on December 31, 2011. 3. Prepare the journal entry for the payment of the note at maturity. 113.

On May 1, Lectric Industries issued 9-month notes in the amount of $60 million. Interest is payable at maturity. Required: Determine the amount of interest expense that should be recorded in a year-end adjusting entry under each of the following independent assumptions: 114. Grossman Products began operations in 2011. The following selected transactions occurred from September 2011 through March 2012. Grossman's fiscal year ends on December 31. 2011: (a. ) On September 5, Grossman opened a checking account and negotiated a short-term line of credit of up to $10, 000, 000 at 10% interest. The company is not required to pay any commitment fees. b. ) On October 1, Grossman borrowed $8, 000, 000 cash and issued a 5-month promissory note with 10% interest payable at maturity. (c. ) Grossman received $3, 000 of refundable deposits in December for reusable containers. (d. ) For the September through December period, sales totaled $5, 000, 000. The state sales tax rate is 4% and 75% of sales are subject to sales tax. (e. ) Grossman recorded accrued interest. 2012: (f. ) Grossman paid the promissory note on the March 1 due date. (g. ) Half of the storage containers are returned in March, with the other half expected to be returned over the next 6 months. Required: 1.

Prepare the appropriate journal entries for the 2011 transactions. 2. Prepare the liability section of the balance sheet at December 31, 2011, based on the data supplied. 3. Prepare the appropriate journal entries for the 2012 transactions. 115. Bencorp issues a $90, 000, 6-month, noninterest-bearing note which the bank discounted at a 10% discount rate. Required: (1. ) Prepare the appropriate journal entry to record the issuance of the note. (2. ) Determine the effective interest rate. 116. On November 1, 2011, a $216, 000, 9-month, noninterest-bearing note is issued at a 10% discount rate. Required: (1. Prepare the appropriate journal entry to record the issuance of the note. (2. ) Determine the effective interest rate. (3. ) Prepare the appropriate journal entry on December 31, 2011, to record interest on the note for the 2011 financial statements. (4. ) Prepare the appropriate journal entry(s) on July 31, 2012, to record interest and the payment of the note. 117. On November 1, 2011, Ziegler Products issued a $200, 000, 9-month, noninterest-bearing note to the bank. Interest was discounted at a 12% discount rate. Required: (1. ) Prepare the appropriate journal entry by Ziegler to record the issuance of the note. 2. ) Determine the effective interest rate. (3. ) Suppose the note had been structured as a 12% note with interest and principal payable at maturity. Prepare the appropriate journal entry to record the issuance of the note by Ziegler. (4. ) Prepare the appropriate journal entry on December 31, 2011, to accrue interest expense on the note described in 3 for the 2011 financial statements. 118. On October 1, 2011, Home Builders Company issued to Carlton Bank a $600, 000, 8-month, noninterestbearing note. Interest was discounted by the bank at a 12% discount rate. Required: 1.

Prepare the appropriate journal entry by Home Builders to record the issuance of the note. 2. Determine the effective interest rate. 3. Suppose the note had been structured as a 12% note with interest and principal payable at maturity. Prepare the appropriate journal entry to record the issuance of the note by Home Builders. 4. Prepare the appropriate journal entry on December 31, 2011, to accrue interest expense on the note described in 3 for the 2011 financial statements. 119. The following selected transactions relate to liabilities of Rose Dish Corporation. Rose's fiscal year ends on December 31.

Required: Prepare the appropriate journal entries through the maturity of each liability. 2011 Feb. 3 Negotiated a revolving credit agreement with Second Bank which can be renewed annually upon bank approval. The amount available under the line of credit is $30, 000, 000 at the bank's prime rate. April 1 Arranged a 3-month bank loan of $12 million with Second Bank under the line of credit agreement. Interest at the prime rate of 8% was payable at maturity. July 1 Paid the 8% note at maturity. Nov. 1 Supported by the credit line, issued $20 million of commercial paper on a nine-month note.

Interest was discounted at issuance at a 6% discount rate. Dec. 31 Recorded any necessary adjusting entry(s). 2012 Aug. 1 Paid the commercial paper at maturity. 120. Stern Corporation borrowed $10 million cash on September 1, 2011, to provide additional working capital for the year's production. Stern issued a 6-month, 10% promissory note to Second State Bank. Interest on the note is payable at maturity. Each firm uses the calendar year as the fiscal year. Required: 1. Prepare all journal entries from issuance to maturity for Stern Corporation. 2. Prepare all journal entries from issuance to maturity for Second State Bank. 21. Hot Springs Marine borrowed $20 million cash on December 1, 2011, to provide working capital for year-end inventory. Hot Springs Marine issued a 4-month, 9% promissory note to Third Bank under a prearranged short-term line of credit. Interest on the note was payable at maturity. Each firm's fiscal period is the calendar year. Required: 1. Prepare the journal entries to record (a) the issuance of the note by Hot Springs Marine and (b) Third Bank's receivable on December 1, 2011. 2. Prepare the journal entries by both firms to record all subsequent events related to the note through March 31, 2012. 3.

Suppose the face amount of the note was adjusted to include interest (a noninterest-bearing note) and 9% is the bank's stated " discount rate. " Prepare the journal entries to record the issuance of the noninterestbearing note by Hot Springs Marine on December 1, 2011. What would be the effective interest rate? 122. On June 30, 2011, Chu Industries issued 9-month notes in the amount of $700, 000. Assume that interest is payable at maturity in the following three independent cases: Required: Determine the amount of interest expense that should be accrued in a year-end adjusting entry under each assumption: 23. The following selected transactions relate to liabilities of Chicago Glass Corporation (Chicago) for 2011. Chicago's fiscal year ends on December 31. (1. ) On January 15, Chicago received $7, 000 from Henry Construction toward the purchase of $66, 000 of plate glass to be delivered on February 6. (2. ) On February 3, Chicago received $6, 700 of refundable deposits relating to containers used to transport glass components. (3. ) On February 6, Chicago delivered the plate glass to Henry Construction and received the balance of the purchase price. (4. ) First quarter credit sales totaled $700, 000.

The state sales tax rate is 4% and the local sales tax rate is 2%. Required: Prepare journal entries for the above transactions. 124. In its 2011 annual report to shareholders, Ank-Morpork Times Inc. included the following disclosure: REVENUE RECOGNITION • Advertising revenue is recognized when advertisements are published, broadcast or when placed on the Company's Web sites, net of provisions for estimated rebates, credit and rate adjustments and discounts. • Circulation revenue includes single copy and home-delivery subscription revenue. Single copy revenue is recognized based on date of publication, net of provisions for related returns.

Proceeds from home-delivery subscriptions and related costs, principally agency commissions, are deferred at the time of sale and are recognized in earnings on a pro rata basis over the terms of the subscriptions. • Other revenue is recognized when the related service or product has been delivered. Also, the following information on its current liabilities was included in its comparative balance sheets: Required: Assuming that Ank-Morpork Times Inc. collected $440, 000, 000 in cash for home delivery subscriptions during fiscal year 2011, what amount of revenue did it recognize during 2011 from this source?

Show the relevant T-account information to support your answer. 125. MullerB Company's employees earn vacation time at the rate of 1 hour per 40-hour work period. The vacation pay vests immediately, meaning an employee is entitled to the pay even if employment terminates. During 2011, total wages paid to employees equaled $808, 000, including $8, 000 for vacations actually taken in 2011, but not including vacations related to 2011 that will be taken in 2012. All vacations earned before 2011 were taken before January 1, 2011. No accrual entries have been made for the vacations.

Required: Prepare the appropriate adjusting entry for vacations earned but not taken in 2011. 126. The following facts relate to gift cards sold by Sunbru Coffee Company during 2011. Sunbru's fiscal year ends on December 31. (a. ) In October, 2011 sold $3, 000 of gift cards, and redeemed $500 of those gift cards. (b. ) In November, 2011, sold $4, 000 of gift cards, and redeemed $1, 400 of October gift cards and $700 of November gift cards. (c. ) In December, 2011, sold $3, 000 of gift cards, and redeemed $200 of October gift cards, $2, 000 of November gift cards, and $400 of December gift cards. (d. Sunbru views a gift card to be " broken" (with a remote probability of redemption) two months after the end of the month in which it is sold. Thus, an unredeemed gift card sold at any time during July would be viewed as broken as of September 30. Required: 1. Prepare all journal entries appropriate to be recorded only during the month of December, 2011 relevant to gift card sales, gift card redemptions, and gift card breakage. 2. Determine the balance of the unearned revenue liability to be reported in the December 31, 2011, balance sheet. Show the relevant T-account information to support your answer. 127.

Diversified Industries sells perishable electronic products. Some must be shipped in reusable containers. Customers pay a deposit for each container. The deposit is equal to the container's cost. Customers receive a refund when the container is returned. During 2011, deposits collected on containers shipped were $700, 000. Deposits are forfeited if containers are not returned in 18 months. Containers held by customers on January 1, 2011, were $330, 000. During 2011, $410, 000 was refunded and deposits of $25, 000 were forfeited. Required: 1. Prepare the appropriate journal entries for the deposits received and returned during 2011. . Determine the liability for refundable deposits to be reported in the December 31, 2011, balance sheet. 128. At December 31, 2011, Cordova Leather's liabilities include the following: 1. $15 million of noncallable 9% notes were issued for $15 million on August 31, 1992. The notes mature on July 31, 2012. Sufficient cash is expected to be available to retire the notes at maturity. 2. $30 million of 8% notes were issued for $30 million on May 31, 2007. The notes mature on May 31, 2017, but investors have the option of calling (demanding payment on) the notes on June 30, 2012.

However, the call option is not expected to be exercised, given prevailing market conditions. 3. $18 million of 10% notes are due on March 31, 2013. A debt covenant requires Cordova to maintain current assets at least equal to 150% of its current liabilities. On December 31, 2011, Cordova is in violation of this covenant. Cordova obtained a waiver from Village Bank until June 2012, having convinced the bank that the company's normal 2 to 1 ratio of current assets to current liabilities will be reestablished during the first half of 2012.

Required: For each of the three liabilities, indicate the portion of the debt that can be excluded from classification as a current liability (that is, reported as a noncurrent liability). Explain. 129. In its 2011 annual report to shareholders, Border Airlines Inc. presented the following balance sheet information about its liabilities: In addition, Border presented the following among its footnote disclosures: Maturities of long-term debt (including sinking fund requirements) for the next five years are: 2012 - $421 million; 2013 - $212 million; 2014 - $273 million; 2015 - $1. 0 billion; 2016 - $777 million.

Required: Consider the appropriate classification of these long-term debt obligations. Assuming no more long-term debt will be issued, what are the implications of the information above for Border's liquidity and solvency risk in 2011 and the following years? 130. MozartMusicCo. began operations in December of 2011. The company sold gift certificates during December in various amounts totaling $1, 600. The gift certificates are redeemable for merchandise within 3 years of the purchase date. However, experience within the industry predicts that 90% of gift certificates will be redeemed within one year.

Certificates totaling $500 were presented for redemption during 2011 as part of merchandise purchases having a total retail price of $750. Required: (1. ) Determine the liability for gift certificates to be reported in the December 31, 2011, balance sheet. (2. ) What is the appropriate classification (current or noncurrent) of the liabilities at December 31, 2011? Show calculations. In its 2011 annual report to shareholders, the Goodday Chemical Company included the following footnote excerpts on CONTINGENCIES in its annual report to shareholders: At December 31, 2011, Goodday had recorded liabilities aggregating $66. million for anticipated costs related to various environmental matters, primarily the remediation of numerous waste disposal sites and certain properties sold by Goodday. These costs include legal and consulting fees, site studies, the design and implementation of remediation plans, post-remediation monitoring and related activities and will be paid over several years. The amount of Goodday's ultimate liability inrespectof these matters may be affected by several uncertainties, primarily the ultimate cost of required remediation and the extent to which other responsible parties contribute.

At December 31, 2011, Goodday had recorded liabilities aggregating $218. 7 million for potential product liability and other tort claims, including related legal fees expected to be incurred, presently asserted against Goodday. The amount recorded was determined on the basis of an assessment of potential liability using an analysis of available information with respect to pending claims, historical experience and, where available, current trends.

Goodday is a defendant in numerous lawsuits involving at December 31, 2011, approximately 63, 000 claimants alleging various asbestos related personal injuries purported to result from exposure to asbestos in certain rubber coated products manufactured by Goodday in the past or in certain Goodday facilities. Typically, these lawsuits have been brought against multiple defendants in state and Federal courts. In the past, Goodday has disposed of approximately 22, 000 cases by defending and obtaining the dismissal thereof or by entering into a settlement.

Goodday has policies and coverage-in-place agreements with certain of its insurance carriers that cover a substantial portion of estimated indemnity payments and legal fees in respect of the pending claims. At December 31, 2011, Goodday has recorded an asset in the amount it expects to collect under the policies and coverage-in-place agreements with certain carriers related to its estimated asbestos liability. Goodday has also commenced discussions with certain of its excess coverage insurance carriers to establish arrangements in respect of their policies.

Subject to the uncertainties referred to above, Goodday has concluded that in respect of any of the above described liabilities, it is not reasonably possible that it would incur a loss exceeding the amount recognized at December 31, 2011, with respect thereto which would be material relative to the consolidated financial position, results of operations, or liquidity of Goodday. 131. Required: Briefly explain the authoritative basis on which the costs/obligations for environmental cleanup and product liability/tort claim matters were accrued in the financial statements.

Answer: GAAP regarding accounting for contingencies requires that contingent losses (and the corresponding obligations) be recorded (accrued) when the loss is both probable and the amount is known or reasonably estimable. Goodday based its analysis on pending claims, historical experience and current trends, such as recent case verdicts with similar manufacturers. 132. Required: What is the point of the last paragraph of the Goodday disclosure? Explain in terms of authoritative GAAP. 133.

Required: Show the summary journal entry that Goodday recorded for the environmental cleanup and product liability/tort claim matters, described in the footnote disclosure. 134. The following selected transactions relate to contingencies of Eastern Products Inc. which began operations in July, 2011. Eastern's fiscal year ends on December 31. Financial statements are published in April, 2012. 1. No customer accounts have been shown to be uncollectible as yet, but Eastern estimates that 3% of credit sales will eventually prove uncollectible.

Sales were $300 million (all credit) for 2011. 2. Eastern offers a one-year warranty against manufacturer's defects for all its products. Industry experience indicates that warranty costs will approximate 2% of sales. Actual warranty expenditures were $3. 5 million in 2011 and were recorded as warranty expense when incurred. 3. In December, 2011, Eastern became aware of an engineering flaw in a product that poses a potential risk of injury. As a result, a product recall appears inevitable. This move would likely cost the company $1. 5 million. 4.

In November, 2011, the State of Vermont filed suit against Eastern, asking civil penalties and injunctive relief for violations of clean water laws. Eastern reached a settlement with state authorities to pay $4. 2 million in penalties on February 3, 2012. 5. Eastern is the plaintiff in a $40 million lawsuit filed against a customer for costs and lost profits from contracts rejected in 2011. The lawsuit is in final appeal and attorneys advise that it is virtually certain that Eastern will be awarded $30 million. Required: Prepare the appropriate journal entries that should be recorded as a result of each of these contingencies.

If no journal entry is indicated, state why. 135. The following selected transactions relate to contingencies of Bowe-Whitney Inc. Bowe-Whitney's fiscal year ends on December 31, 2011, and financial statements are published in March 2012. 1. Bowe-Whitney is involved in a lawsuit resulting from a dispute with a customer over a 2011 transaction. At December 31, attorneys advised that it was probable that Bowe-Whitney would lose $3 million in an unfavorable outcome. On February 12, 2012, judgment was rendered against Bowe-Whitney in the amount of $14 million plus interest, a total of $15. 2 million.

Bowe-Whitney does not plan to appeal the judgment. 2. Since August of 2011, Bowe-Whitney has been involved in labor disputes at two of its facilities. Negotiations between the company and the unions have not produced a settlement and, since January 2011, strikes have been ongoing at these facilities. It is virtually certain that material costs will be incurred but the amount of resultant costs cannot be adequately predicted. 3. Bowe-Whitney is the defendant in a lawsuit filed in January 2012 in which Access Company seeks $10 million as an adjustment to the purchase price related to the sale of Bowe-Whitney's hardwood division in 2011.

The lawsuit alleges that Bowe-Whitney misrepresented the division's assets and liabilities. Legal counsel advises that it is reasonably possible that Bowe-Whitney could lose $5 million, but that it's extremely unlikely it could lose the $10 million asked for. 4. At March 1, 2012, the EPA is in the process of investigating the possibility of environmental violations at one of Bowe-Whitney's sites, but has not proposed a penalty assessment. Management feels an assessment is reasonably possible, and if an assessment is made, a settlement of up to $33 million is probable.

Required: Prepare journal entries that should be recorded as a result of each of the above contingencies. 136. Concept 1 Office Products sells office electronics that carry a 60-day manufacturer's warranty. At the time of purchase, customers are offered the opportunity to also buy a 1-year or 2-year extended warranty for an additional charge. Required: 1. Does the sale of the extended warranty represent a loss contingency? 2. Provide journal entries for the extended warranty sales and revenue recognition. 137. In its 2011 annual report to shareholders, Hyer Aviation Group Inc. ncluded the following disclosure: On October 6, 2010, the company's subsidiary, Pyro Aeroplex, filed suit against Syntex, an unincorporated division of Bright American Corporation, for breach of contract and fraud with regard to the supply of deficient wire rope that is installed as aircraft flight control cables on WD-50 aircraft. The case, filed in the circuit court of Bell County, Arkansas, was brought to trial and on September 20, 2011, a jury returned with a verdict in favor of the company in the amount of $17. 5 million. The Court, upon a postjudgment motion filed by Pyro, reduced the judgment to $4. million. Pyro has appealed that Order to the Supreme Court of Arkansas. The company believes the appeal is without merit and will continue to pursue final judgment on the Order. The company, pending appeal, has not recorded the $4. 5 million favorable judgment. Required: What journal entries, if any, has Hyer recorded regarding this contingency? Explain its rationale. The following facts apply to TinyPart Toy Company's pending litigation as of December 31, 2011: a. TinyPart is defending against a lawsuit and believes there is a 51% chance it will lose in court.

If they lose, TinyPart estimates that damages will be $100, 000. b. TinyPart is defending against another lawsuit for which management believes it is virtually certain to lose in court. If it loses the lawsuit, management estimates damages will fall somewhere in the range of $30, 000 - $50, 000, with each amount in that range equally likely to occur. c. TinyPart is defending against another lawsuit that is identical to item (b), but the relevant losses will only occur far into the future. The present values of the endpoints of the range are $15, 000 and $25, 000.

TinyPart's management believes the effects of time value of money on these amounts are material, but also believes the timing of these amounts is uncertain. d. TinyPart is defending against a fourth lawsuit and believes there is only a 25% chance it will lose in court. If TinyPart loses, it believes damages will fall somewhere in the range of $35, 000 - $40, 000, with each amount in that range equally likely to occur. 138. Required: Indicate how TinyPart would disclose or account for the lawsuit described in part (a) under U. S. GAAP and under IFRS in the financial statements for the year ended December 31, 2011. 39. Required: Indicate how TinyPart would disclose or account for the lawsuit described in part (b) under U. S. GAAP and under IFRS in the financial statements for the year ended December 31, 2011. 140. Required: Indicate how TinyPart would disclose or account for the lawsuit described in part (c) under U. S. GAAP and under IFRS in the financial statements for the year ended December 31, 2011. 141. Required: Indicate how TinyPart would disclose or account for the lawsuit described in part (d) under U. S. GAAP and under IFRS in the financial statements for the year ended December 31, 2011. 142.

In 2011, Cap City Inc. introduced a new line of televisions that carry a two-year warranty against manufacturer's defects. Based on past experience with similar products, warranty costs are expected to be approximately 1% of sales during the first year of the warranty and approximately an additional 3% of sales during the second year of the warranty. Sales were $6, 000, 000 for the first year of the product's life and actual warranty expenditures were $29, 000. Assume that all sales are on credit. Required: 1. Prep