CHAPTER 10

Current Liabilities and Payroll

ASSIGNMENT CLASSIFICATION TABLE

Learning Objectives	Questions	Brief Exercises	Exercises	Problems Set A	Problems Set B
1. Account for determinable or certain current liabilities.	1, 2, 3, 4, 5, 6, 7, 12	1, 2, 3, 4, 5, 6, 7, 16, 17	1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 14	1, 2, 3, 4, 5	1, 2, 3, 4, 5
2. Account for uncertain liabilities.	8, 9, 10, 11, 12, 13, 14, 15, 16	8, 9, 10, 11, 12, 13, 16	11, 12, 13, 14, 15	1, 2, 5, 6, 7, 8,	1, 2, 5, 6, 7, 8,
3. Determine payroll costs and record payroll transactions.	17, 18, 19, 20	14, 15, 16	1, 16, 17, *20	5, 9, 10,	5, 9, 10,
4. Prepare the current liabilities section of the balance sheet.	21, 22, 23	16, 17, 18	10, 18, 19	3, 4, 5, 8, 11, 12,	3, 4, 5, 8, 11, 12,
*5. Calculate mandatory payroll deductions (Appendix 10A).	*24, *25	*19, *20	*20, *21	*13	*13

ASSIGNMENT CHARACTERISTICS TABLE

Problem Number	Description	Difficulty Level	Time Allotted (min.)
1A	Prepare current liability entries and adjusting entries.	Moderate	15-25
2A	Prepare current liability entries, adjusting entries and current liability section.	Moderate	25-35
3A	Calculate current and non-current portion of notes payable, and interest payable.	Moderate	15-25
4A	Record note transactions; show financial statement presentation.	Moderate	30-40
5A	Record current liability transactions; prepare current liabilities section.	Moderate	30-40
6A	Record warranty transactions.	Moderate	15-25
7A	Record customer loyalty program and gift card transactions; determine impact on financial statements.	Moderate	15-25
8A	Discuss reporting of contingencies and record provisions.	Moderate	15-25
9A	Prepare payroll register and record payroll.	Moderate	25-35
10A	Record payroll transactions and calculate balances in payroll liability accounts.	Moderate	25-35
11A	Prepare current liabilities section; calculate and comment on ratios.	Moderate	25-35
12A	Prepare current liabilities section; calculate and comment on ratios.	Moderate	25-35
*13A	Calculate payroll deductions; prepare payroll register.	Moderate	25-35
1B	Prepare current liability entries and adjusting entries.	Moderate	15-25
2B	Prepare current liability entries, adjusting entries and current liability section.	Moderate	25-35
3B	Calculate current and non-current portion of notes payable, and interest payable.	Moderate	15-25
4B	Record note transactions; show financial statement presentation.	Moderate	30-40
5B	Record current liability transactions; prepare current liabilities section.	Moderate	30-40

ASSIGNMENT CHARACTERISTICS TABLE (Continued)

Problem Number	Description	Difficulty Level	Time Allotted (min.)
6B	Record warranty transactions.	Moderate	15-25
7B	Record customer loyalty program and gift card transactions; determine impact on financial statements.	Moderate	15-25
8B	Discuss reporting of contingencies and record provisions.	Moderate	15-25
9B	Prepare payroll register and record payroll.	Moderate	25-35
10B	Record payroll transactions and calculate balances in payroll liability accounts.	Moderate	25-35
11B	Prepare current liabilities section; calculate and comment on ratios.	Moderate	25-35
12B	Prepare current liabilities section; calculate and comment on ratios.	Moderate	25-35
*13B	Calculate payroll deductions; prepare payroll register.	Moderate	25-35

BLOOM'S TAXONOMY TABLE

Correlation Chart between Bloom's Taxonomy, Study Objectives and End-of-Chapter Material

Learning Objectives	Knowledge	Comprehension	Application		Analysis	Synthesis	Evaluation
1. Account for determinable or certain current liabilities.	Q10-1 Q10-2 Q10-4 Q10-5 Q10-12 BE10-16	Q10-6 Q10-7 E10-14	Q10-3 BE10-1 BE10-2 BE10-3 BE10-4 BE10-5 BE10-6 BE10-7 BE10-17 E10-1 E10-2 E10-3 E10-4 E10-5 E10-6	E10-7 E10-8 E10-9 E10-10 P10-1A P10-2A P10-3A P10-4A P10-5A P10-1B P10-2B P10-3B P10-4B P10-5B			
2. Account for uncertain liabilities.	Q10-12 BE10-16	Q10-8 Q10-9 Q10-10 Q10-11 Q10-13 Q10-14 Q10-15 Q10-16 BE10-12 E10-14	BE10-8 BE10-9 BE10-10 BE10-11 BE10-13 E10-11 E10-12 E10-13 E10-15 P10-1A P10-2A	P10-5A P10-6A P10-7A P10-8A P10-1B P10-2B P10-5B P10-6B P10-7B P10-8B			
3. Determine payroll costs and record payroll transactions.	Q10-19 BE10-13	Q10-17 Q10-18 Q10-20	BE10-14 BE10-15 BE10-16 E10-1 E10-16 E10-17 *E10-20	P10-5A P10-9A P10-10A P10-5B P10-9B P10-10B			
4. Prepare the current liabilities section of the balance sheet.	Q10-21 Q10-22 Q10-23 BE10-16		BE10-17 BE10-18 E10-10 E10-18 E10-19 P10-3A P10-4A P10-5A P10-8A	P10-10A P10-11A P10-12A P10-3B P10-4B P10-5B P10-8B P10-11B P10-12B			
*5. Calculate mandatory payroll deductions (Appendix 10A).	*Q10-24 *Q10-25		*BE10-19 *BE10-20 *E10-20 *E10-21	*P10-13A *P10-13B			
Broadening Your Perspective			Santé Smoothie Saga Cumulative Coverage Chapters 3 – 10 BYP10-3 BYP10-4		BYP10-1	BYP10-2 BYP10-5	

ANSWERS TO QUESTIONS

1. A determinable liability is also referred to as a certain liability or a known liability. Examples include accounts payable, salaries payable, HST payable, and CPP and EI payable.

2. The transaction does not meet the definition of a liability. A liability is defined as a present obligation, arising from past events, to make future payments of assets or services. A commitment to purchase is usually not an obligation and no past event (a purchase) has occurred since goods have not been delivered or services received.

3. (a)

Cash	400,000	
Unearned Revenue		400,000
(5,000 × $80)		

(b)

Unearned Revenue	66,667	
Service Revenue		66,667
($400,000 ÷ 6)		

4. Interest payable is calculated as the product of the principal, the interest rate, and the fraction of the year in the accrual. The amount of interest payable at the fiscal year end is calculated with reference to the amount of time since the last interest payment if regular interest payments are required.

5. An operating line of credit is a pre-authorized bank loan that allows a company to borrow up to a pre-set limit, and repay the loan, as needed. When the company borrows against its line of credit, the cash account balance is increased and notes payable are increased.
   A bank overdraft occurs when a bank account is overdrawn due to withdrawals and cheques in excess of deposit amounts. In this case, the cash account will show a credit balance. There is no separate liability shown, as the overdraft is itself a liability.

6. The roommate is confusing different taxes. Incorporated businesses pay income tax on profits. Those taxes do appear as expenses on the income statement. Sales taxes, on the other hand, do not appear on the income statement. Merchants are directed by law to charge sales taxes on the selling price of most goods and services. In doing so, the merchant is acting as an agent of the federal and provincial governments when the business is charging, collecting, and remitting the sales taxes when due. Until the sales taxes are remitted, they appear as current liabilities on the balance sheet.

7. Laurel is not correct. Some long-term debts have portions that will be due in the coming year. This portion is classified as a current liability since it will be paid within one year of the balance sheet date.

QUESTIONS (Continued)

8. I don't agree. Although you don't know which specific appliances will be returned for repair, you can estimate the cost of repairs that will be required under warranty based on past experience or industry information. If repair costs are not recorded until units are brought in, liabilities on the balance sheet will be understated and the expenses will not be properly matched with revenue on the income statement. If sales are increasing, this will probably result in an overstatement of income.

9. Future savings provided to customers through customer loyalty programs produces a future performance obligation. This future performance obligation results in unearned revenue, in that the entity has promised to deliver goods or services in the future. When the promised goods or services are delivered, the performance obligation is met, and this results in the recognition of the related revenue.

10. The company should estimate the number of vouchers that will likely be used and the stand-alone value of these vouchers. The total of the standalone value of the vouchers and the stand-alone value of the restaurant meals sold should be used to allocate the revenue to current sales and unearned revenue. When the vouchers are redeemed, the restaurant has satisfied its future performance obligation and it can then recognize this unearned revenue as earned.

11. Gift cards are similar to unearned revenues in that they represent cash received from customers for future products or services. They are classified as a liability because they are an obligation for the issuing company to provide assets or services in the future. Unearned passenger revenue usually has a determinable time at which the flight will be taken and the unearned revenue becomes earned. Gift cards however do not have a fixed date at which the obligation will be satisfied, and frequently are not used at all. In some cases, a portion or the entire amount of the gift card is not used at all. Over time, companies need to determine if a portion of this unearned revenue can be considered earned since the likelihood of redemption becomes more remote.

12. A determinable liability has a known amount, payee, and due date. An estimated liability is an obligation that exists but whose amount and timing are uncertain. There is no uncertainty about the existence of a determinable liability and an estimated liability. Under ASPE, a contingent liability is an obligation that is uncertain with respect to existence, timing, and amount. The existence of a contingent liability depends on the resolution of a future event outside of the company's control. Under IFRS, situations where it is probable an obligation exists and the amount can be reasonably estimated are treated as estimated liabilities. Contingent liabilities are possible obligations that the company probably will not have to settle, or obligations for which the amount cannot be reliably measured.

QUESTIONS (Continued)

13. Under ASPE, a contingent liability is defined as a possible obligation that will be confirmed by the occurrence or non-occurrence of an uncertain future event. An estimated liability is an obligation that exists but whose amount and timing are uncertain. A contingent liability may be recognized as an estimated liability if it is likely that a present obligation exists and the amount can be reliably estimated. Under IFRS, a contingent liability is a possible obligation that does not meet the criteria for recognition and does not meet the definition of a liability. Under IFRS, situations where it is probable an obligation exists and the amount can be reasonably estimated are treated as estimated liabilities.

14. Under ASPE, if a contingent liability is both likely to occur and reasonably estimable, it is recorded in the accounts. If its likelihood is not determinable, or if it is not reasonably estimable, it is not recorded in the accounts but disclosed in a note. If it is unlikely to occur, but could have a substantial negative effect on the company's financial position, it should be disclosed. Otherwise, contingent liabilities are neither recorded nor disclosed.

15. Under IFRS, a contingent liability is never recorded because it is a possible liability that does not meet the criteria for recognition, either because it is not probable or the amount cannot be reliably measured. The criteria for recognition of an estimated liability are that it is probable a present obligation exists and that the amount can be reliably estimated. Under IFRS, the threshold for recognizing liabilities is "probable" rather than "likely" as used under ASPE. This threshold is generally considered lower.

16. If the chance of a contingency occurring is considered small, it should still be disclosed if the occurrence could have a substantial effect on the company's financial position.

17. Gross pay is the amount an employee actually earns. Net pay, the amount an employee is paid, is gross pay reduced by both mandatory and voluntary deductions, such as income tax, union dues, etc. Gross pay should be recorded as wages or salaries expense.

18. Employee payroll deductions are the amounts subtracted from an employee's gross pay in determining net pay. Mandatory employee payroll deductions include federal and provincial income taxes, Canada Pension Plan, and Employment Insurance. When an employer withholds these amounts from an employee pay cheque, the employer is merely acting as a collection agent for the taxing body. Since the employer holds employees' funds, these withholdings are a liability for the employer until they are remitted to the government. Employee payroll deductions also include voluntary deductions for things such as insurance, pensions, union dues, and donations to charities.

QUESTIONS (Continued)

18. (Continued)

Employer payroll deductions are amounts the employer is expected to pay. These include CPP where the employer is expected to pay the same amount as the employee and EI where the employer is expected to pay 1.4 times the amount the employee has paid. These are expenses for the employer over and above gross pay.

19. The employee earnings record is used in (1) determining when an employee has earned the maximum earnings subject to CPP and EI deductions, (2) filing information returns with the CRA, and (3) providing each employee with a statement of gross earnings and tax withholdings for the year on the T4 form.

    The payroll register accumulates gross earnings, deductions, and net pay for all employees for each pay period. It provides the documentation to support the preparation of the paycheque for each employee.

20. Income tax, CPP, and EI deductions are remitted to the Receiver General, usually on a monthly basis. Workplace, Health, Safety, and Compensation is remitted quarterly (or monthly depending on the province) to the Workplace, Health, Safety and Compensation Commission (or similar body depending on the province). Other deductions are paid to different organizations, such as the United Way, and would normally be made on a monthly basis.

21. Current liabilities are usually listed in order of their liquidity, by maturity date. It may not be possible to list current liabilities in order of liquidity because of the varying maturity dates that may exist for certain specific obligations. They are also often listed in order of magnitude with the largest items listed first.

22. If companies have used their line of credit and are overdrawn or show a negative cash balance, the amount is included in current liabilities and called bank indebtedness, bank overdraft, or bank advances. Note disclosure will include security or collateral that was required by the bank, the maximum amount that can be withdrawn, as well as the interest rate charged on the bank overdraft. Terms associated with notes payable are also disclosed.

23. A company can determine if its current liabilities are too high by monitoring the relationship of current assets to current liabilities and calculating the current ratio (current assets ÷ current liabilities). This relationship is critical in evaluating a company's short-term ability to repay debt.

QUESTIONS (Continued)

*24. Contribution rates for CPP are set by the federal government (Quebec government for QPP) and are adjusted every January if applicable. Employee contributions under the Canada Pension Plan Act are set at a percentage of pensionable earnings (currently 4.95%). Pensionable earnings are gross earnings less a basic yearly exemption (currently $3,500). A maximum ceiling or limit is imposed on pensionable earnings ($53,600 for 2015). The exemption and ceiling are prorated to the relevant pay period (e.g., weekly, biweekly, semimonthly, monthly).

Contribution rates for EI are based upon a percentage (currently 1.88%) of insurable earnings, to a maximum earnings ceiling ($49,500 for 2015). In most cases, insured earnings are gross earnings plus any taxable benefits.

*25. The amount deducted from an employee's salary for income tax is determined by using payroll accounting software programs, CRA payroll deduction tables easily accessible online, or using the payroll deductions online calculator. The income tax that should be withheld from gross salary is based on the number of personal tax credits claimed by an employee as shown on their TD1 form.

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 10-1

(a) No
(b) Yes
(c) Yes for $30,000
(d) Yes
(e) Yes
(f) Yes

BRIEF EXERCISE 10-2

(a)	**Cash**	**240,000**	
	Unearned Revenue		**240,000**
	(2,000 × $120)		
(b)	**Unearned Revenue**	**40,000**	
	Service Revenue		**40,000**
	($240,000 ÷ 6)		

BRIEF EXERCISE 10-3

(a)	**Cash**	**270,000**	
	Unearned Revenue		**270,000**
	(15,000 × $18)		
(b)	**Unearned Revenue**	**22,500**	
	Revenue		**22,500**
	($270,000 ÷ 12)		

BRIEF EXERCISE 10-4

(a)

2017				
July	**1**	**Cash**	**60,000**	
		Notes Payable		**60,000**

(b)

2017				
Dec.	**31**	**Interest Expense ($60,000 × 4% × 6/12)**	**1,200**	
		Interest Payable		**1,200**

(c)

2018				
July	**1**	**Interest Expense ($60,000 × 4% × 6/12)**	**1,200**	
		Interest Payable	**1,200**	
		Notes Payable	**60,000**	
		Cash		**62,400**

BRIEF EXERCISE 10-5

(a)

Calculation of sales tax payable – Ottawa store:

HST payable = $7,200 × 13% = $936

Calculation of sales tax payable – Regina store:

GST payable = $8,400 × 5% = $420

PST payable = $8,400 × 5% = $420

BRIEF EXERCISE 10-5 (Continued)

(b)

Ottawa store:

Mar. 12	**Cash**	**8,136**	
	Sales		**7,200**
	HST Payable		**936**

Regina store:

Mar. 12	**Cash**	**9,240**	
	Sales		**8,400**
	GST Payable		**420**
	PST Payable		**420**

BRIEF EXERCISE 10-6

(a)

May 10, 2017:

Calculation of sales tax collected:

HST: \$1,800 × 13% × 40 = \$9,360

May 17, 2017:

Calculation of sales tax collected:

HST: \$1,800 x 13% x 95 = \$22,230

(b)

May. 10	**Cash**	**81,360**	
	Sales (\$1,800 × 40)		**72,000**
	HST Payable		**9,360**
May 17	**Cash**	**193,230**	
	Sales (\$1,800 x 95)		**171,000**
	HST Payable		**22,230**

BRIEF EXERCISE 10-7

Mar. 31	**Property Tax Expense ($9,600 × 3/12)**	**2,400**	
	Property Tax Payable....................		**2,400**
June 30	**Property Tax Payable ....**	**2,400**	
	Property Tax Expense ($9,600 × 3/12)	**2,400**	
	Prepaid Property Tax ($9,600 × 6/12)	**4,800**	
	Cash...		**9,600**
Dec. 31	**Property Tax Expense ....**	**4,800**	
	Prepaid Property Tax		**4,800**

BRIEF EXERCISE 10-8

Dec. 31	**Warranty Expense ....**	**18,700**	
	Warranty Liability..........................		**18,700**
	[(4,400 units × 5%) × $85/unit]		

BRIEF EXERCISE 10-9

July 3	**Unearned Revenue–Loyalty Program**	**50**	
	Sales		**50**

To recognize the loyalty program redemption.

Note: Each time One-Stop has a point redemption it satisfies the related performance obligation and therefore the unearned revenue becomes earned.

BRIEF EXERCISE 10-10

(a)	**Stand-alone book sales (50,000 novels × $8)**	**= $400,000**
	Stand-alone value of coupons = 50,000*10%*$2	**= 10,000**
	Total Value	**$ 410,000**

Allocate as follows:

Earned revenue= ($400,000/$410,000)*$400,000	**= 390,244**
Unearned revenue= ($10,000/$410,000)*$400,000	**= 9,756**

(b)

July	**Cash ....**	**400,000**	
	Sales		**390,244**
	Unearned Revenue–Loyalty Program		**9,756**

BRIEF EXERCISE 10-11

Dec. 2017	**Cash ....**	**4,750**	
	Unearned Revenue....................		**4,750**
Jan. 2018	**Unearned Revenue.........................**	**2,425**	
	Sales		**2,425**
	Cost of Goods Sold........................	**1,070**	
	Merchandise Inventory		**1,070**

BRIEF EXERCISE 10-12

(a) (2) Disclosed: This liability should be disclosed. The outcome is neither likely nor unlikely (not determinable). The treatment would be the same under both IFRS and ASPE.

(b) (1) Recorded: This liability is likely and can be reasonably estimated. The treatment would be the same under both IFRS and ASPE.

BRIEF EXERCISE 10-12 (Continued)

(c) (1) Recorded under IFRS: This liability is "probable" and can be reasonably estimated.
(2) Disclosed under ASPE: The outcome is not "likely"; the chance of occurrence is not considered sufficiently high.

BRIEF EXERCISE 10-13

The arguments for recording this liability are that the outcome is probable and the amount can be estimated. Since the company is public, IFRS applies. In this case, the lawsuit is considered an estimated liability and is recorded since the loss is considered probable. Management may be reluctant to disclose this information separately on the financial statements for fear it will be taken as an admission of guilt.

BRIEF EXERCISE 10-14

(a)

Gross pay:		
Regular pay (40 × $12.50)	**$500.00**	
Overtime pay (6 × $18.75)	**112.50**	**$612.50**
Less: CPP contributions	**$26.99**	
EI premiums	**11.21**	
Income tax withheld	**94.56**	**132.76**
Net pay		**$479.74**

(b)

Employer costs:	
CPP contributions	**$26.99**
EI premiums ($11.21 × 1.4)	**15.69**
	$42.68

The employer does not bear any costs for employee income taxes.

BRIEF EXERCISE 10-15

Aug. 22	Employee Benefits Expense	5,123	
	CPP Payable		3,330
	EI Payable ($1,281 × 1.4)		1,793

BRIEF EXERCISE 10-16

(a) Current liability
(b) Current liability
(c) Current liability
(d) Current liability
(e) Current liability
(f) Current asset
(g) Disclosed in the notes to the financial statements as a contingent liability
(h) Current liability
(i) Current asset
(j) Current liability ($5,000) and long-term liability ($70,000)

BRIEF EXERCISE 10-17

(a) Current liability: $12,000
Non-current liability: $48,000
Only the portion of principal to be repaid in 2018 would be shown as a current liability.

(b) Current liability: $24,000 ($2,000 per month × 12 months)
Non-current liability: $66,000 ($96,000 – [$2,000 × 3] – $24,000)
The principal repayments of $2,000 per month to be repaid in 2018 would be shown as a current liability.

BRIEF EXERCISE 10-18

(a)

SUNCOR ENERGY INC.
(Partial) Balance Sheet
December 31, 2014
(in millions)

Liabilities

Current liabilities	
Accounts payable and accrued liabilities	$5,704
Income taxes payable	1,058
Current portion of provisions	752
Short-term debt	806
Current portion of long-term debt	34
Total current liabilities	$8,354

Note: This presentation lists the accounts in order of size, with the largest one (accounts payable and accrued liabilities) listed first. Other alternatives are also possible, such as listing the accounts in order of liquidity, by estimated maturity date.

(b)

Current Ratio = Current Assets ÷ Current Liabilities

$13,916* ÷ $8,354 = 1.67 to 1

*** $4,275 + $5,495 + $680 + $3,466 = $13,916**

Acid-Test Ratio = (Cash + AR + Income Tax Recoverable) ÷ Current Liabilities

($4,275 + $5,495 + $680) ÷ $8,354 = 1.25 to 1

*BRIEF EXERCISE 10-19

Monthly Pay = ($60,100/year ÷ 12 months) = $5,008.33

(a) January 2015:
CPP deduction = ($5,008.33 – [$3,500 ÷ 12]) × 4.95% = $233.47
EI deduction = $5,008.33 × 1.88% = $94.16

(b) December 2015:
No deductions for CPP or EI. The cumulative salary up to November 30, 2015 is $55,091.63 ($5,008.33 × 11). The cumulative salary exceeds the annual maximum pensionable earnings of $53,600 and maximum insurable earnings of $49,500.

*BRIEF EXERCISE 10-20

Gross salary for the week = $1,075

(a)	**CPP**	**[($1,075.00 − $67.31) × 4.95%]**	**$49.88**
	EI	**($1,075 × 1.88%)**	**20.21**
(b)	**Federal income tax (claim code 1)**		**130.95**
	Ontario income tax (claim code 1)		**65.20**
	Total deductions		**$266.24**

SOLUTIONS TO EXERCISES

EXERCISE 10-1

March 1	**Supplies**	**350**	
	Accounts Payable		**350**
5	**Cash**	**200**	
	Unearned Revenue		**200**
12	**Unearned Revenue**	**200**	
	Service Revenue		**200**
15	**Salaries Expense**	**5,000**	
	CPP Payable		**230**
	EI Payable		**94**
	Income Tax Payable		**1,400**
	Cash		**3,276**
30	**Accounts Payable**	**350**	
	Cash		**350**

EXERCISE 10-2

2017			
July 1	**Cash**	**50,000**	
	Notes Payable		**50,000**
Nov. 1	**Cash**	**60,000**	
	Notes Payable		**60,000**
Dec. 31	**Interest Expense**	**2,600**	
	Interest Payable		**2,600**
	($50,000 × 8% × 6/12) = $2,000		
	+ ($60,000 × 6% × 2/12) = $600		
2018			
Feb. 1	**Notes Payable**	**60,000**	
	Interest Payable	**600**	
	Interest Expense	**300**	
	Cash		**60,900**
	($60,000 × 6% × 1/12) = $300		
Apr. 1	**Notes Payable**	**50,000**	
	Interest Payable	**2,000**	
	Interest Expense	**1,000**	
	Cash		**53,000**
	($50,000 × 8% × 3/12) = $1,000		

EXERCISE 10-3

(a)	**June 1**	**Cash**	**90,000**	
		Notes Payable		**90,000**
(b)	**June 30**	**Interest Expense**	**450**	
		Interest Payable		**450**
		($90,000 × 6% × 1/12) = $450		
(c)	**Dec. 1**	**Notes Payable**	**90,000**	
		Interest Payable	**2,700**	
		Cash		**92,700**

(d) Total financing cost was $2,700 ($90,000 × 6% × 6/12)

EXERCISE 10-4

Novack Company

2017			
June 1	**Equipment**	**50,000**	
	Accounts Payable		**50,000**
July 1	**Accounts Payable**	**50,000**	
	Notes Payable		**50,000**
Aug. 1	**Interest Expense**	**292**	
	Cash		**292**
	($50,000 × 7% × 1/12)		
Aug. 31	**Interest Expense**	**292**	
	Interest Payable		**292**
Sep. 1	**Interest Payable**	**292**	
	Cash		**292**
Oct. 1	**Interest Expense**	**292**	
	Notes Payable	**50,000**	
	Cash		**50,292**

EXERCISE 10-5

(a) Tundra Trees

Mar.	1	Equipment	30,000	
		Notes Payable		30,000
July	31	Interest Expense	1,000	
		Interest Payable		1,000
		($30,000 × 8% × 5/12)		
Oct.	1	Interest Expense*	400	
		Interest Payable	1,000	
		Notes Payable	30,000	
		Cash		31,400
		* ($30,000 × 8% × 2/12)		

(b) Edworthy Equipment

Mar.	1	Notes Receivable	30,000	
		Sales		30,000
	1	Cost of Goods Sold	18,000	
		Merchandise Inventory		18,000
May	31	Interest Receivable	600	
		Interest Revenue		600
		($30,000 × 8% × 3/12)		
Oct.	1	Cash	31,400	
		Interest Receivable		600
		Interest Revenue*		800
		Notes Receivable		30,000
		* ($30,000 × 8% × 4/12)		

EXERCISE 10-6

1. Sainsbury

		Debit	Credit
April 10	Cash	14,916	
	Sales		13,200
	HST Payable ($13,200 × 13%)		1,716

2. Montgomery

		Debit	Credit
April 21	Cash	31,500	
	Sales		30,000
	GST Payable ($30,000 × 5%)		1,500

3. Winslow

		Debit	Credit
April 27	Cash	28,112	
	Sales		25,100
	GST Payable ($25,100 × 5%)		1,255
	PST Payable ($25,100 × 7%)		1,757

EXERCISE 10-7

(a) Quebec

April 10	Cash	91,980	
	Sales ($80,000)		80,000
	GST Payable ($80,000 x 5%)		4,000
	QST Payable ($80,000 x 9.975%)		7,980

(b) Nova Scotia

April 10	Cash	92,000	
	Sales		80,000
	HST Payable ($80,000x 15%)		12,000

(c) Alberta

April 10	Cash	84,000	
	Sales		80,000
	GST Payable ($80,000 x 5%)		4,000

EXERCISE 10-8

2017			
(a) Oct. 31	**Cash**	**21,000**	
	Unearned Revenue		**21,000**
	(100 × $210)		
(b)			
1. Nov. 30	**Unearned Revenue**	**3,500**	
	Admission Revenue		**3,500**
	($21,000 × 1/6)		
2018			
2. Mar. 31	**Unearned Revenue**	**3,500**	
	Admission Revenue		**3,500**
	($21,000 × 1/6)*		
3. Apr. 30	**Unearned Revenue**	**3,500**	
	Admission Revenue		**3,500**
	($21,000 × 1/6)*		

*** Charleswood adjusts its accounts on a monthly basis. There would be a similar entry at December 31, 2017, January 31, 2018, and February 28, 2018.**

(c) Parts 1, 2 and 3.

Unearned Revenue

Date	Explanation	Ref.	Debit	Credit	Balance
2017					
Oct. 31				**21,000**	**21,000**
Nov. 30	**Adjusting entry**		**3,500**		**17,500**
Dec. 31	**Adjusting entry**		**3,500**		**14,000**
2018					
Jan. 31	**Adjusting entry**		**3,500**		**10,500**
Feb. 28	**Adjusting entry**		**3,500**		**7,000**
Mar. 31	**Adjusting entry**		**3,500**		**3,500**
Apr. 30	**Adjusting entry**		**3,500**		**0**

EXERCISE 10-9

2017				
(a) Nov.	**Cash**		**270,000**	
		Unearned Revenue		**270,000**
		(15,000 × $18)		
(b) Dec. 31	**Unearned Revenue**		**22,500**	
		Revenue		**22,500**
		($270,000 × 1/12)		
2018				
(c) Mar. 31	**Unearned Revenue**		**67,500**	
		Revenue		**67,500**
		($270,000 × 3/12)		

EXERCISE 10-10

(a)

May	31	Property Tax Expense ($24,000 × 1/12)	2,000	
		Property Tax Payable		2,000

The company would have accrued property tax expense on a monthly basis using the 2016 monthly expense of $2,200 per month. An adjustment would be required when the property tax bill is received for the over accrual:

May	31	Property Tax Payable	800	
		Property Tax Expense		800
		[($24,000 × 1/12) – $2,200] × 4 months		

The company accrues property tax expense on June 30, 2017 for one month.

July	31	Property Tax Payable ($24,000 × 6/12)	12,000	
		Property Tax Expense ($24,000 × 1/12)	2,000	
		Prepaid Property Tax ($24,000 × 5/12)	10,000	
		Cash		24,000

The company makes monthly adjusting entries for property tax expense on from August to December, as follows:

Property Tax Expense	2,000	
Prepaid Property Tax		2,000

(b) Since the company's fiscal year matches the annual property tax bill, there are no prepaid property taxes or property taxes payable.

<u>Income Statement, Year Ended December 31, 2017 (Partial)</u>	
Operating expenses	
Property tax expense	**$24,000**

EXERCISE 10-10 (Continued)

(b) (Continued)

Prepaid Property Tax

Date	Explanation	Ref.	Debit	Credit	Balance
Jul. 31			10,000		10,000
Aug. 31				2,000	8,000
Sep. 30				2,000	6,000
Oct. 31				2,000	4,000
Nov. 30				2,000	2,000
Dec. 31				2,000	0

Property Tax Expense

Date	Explanation	Ref.	Debit	Credit	Balance
Jan. 31			2,200		2,200
Feb. 28			2,200		4,400
Mar. 31			2,200		6,600
Apr. 30			2,200		8,800
May 31			2,000		10,800
May 31				800	10,000
June 30			2,000		12,000
July 31			2,000		14,000
Aug. 31			2,000		16,000
Sep. 30			2,000		18,000
Oct. 31			2,000		20,000
Nov. 30			2,000		22,000
Dec. 31			2,000		24,000

EXERCISE 10-11

(a) Estimated warranty costs for November and December sales:

Number of units sold (30,000 + 32,000)	62,000
Estimated rate of defective units	× 2.5%
Total estimated defective units	1,550
Average warranty repair cost	× $20
Estimated warranty costs for Nov. and Dec.	$31,000

Dec. 31	Warranty Expense	31,000	
	Warranty Liability		31,000

(b)

Dec. 31	Warranty Liability	21,600	
	Repair Parts Inventory, Salaries Payable, Cash, etc.		21,600
	(450 + 630) x $20 = $21,600		

(c)

Income Statement, Year Ended December 31, 2017 (Partial)

Operating expenses

Warranty expense	$31,000

Balance Sheet, at December 31, 2017 (Partial)

Current Liabilities

Warranty liability ($31,000 – $21,600)	$9,400

EXERCISE 10-12

(a) Warranty expense:

2015: ($2,000 × 500 units sold × 5%) = $50,000
2016: ($2,000 × 600 units sold × 5%) = $60,000
2017: ($2,000 × 525 units sold × 5%) = $52,500

(b) Warranty liability at the end of the year:

Estimated warranty expense for 2015:	**$50,000**
Less: Cost incurred in 2015	**(30,000)**
Warranty liability at end of 2015:	**20,000**
Add: Estimated warranty expense for 2016:	**60,000**
Less: Cost incurred 2016	**(46,000)**
Warranty liability at end of 2016:	**34,000**
Add: Estimated warranty expense for 2017:	**52,500**
Less: Cost incurred 2017	**(53,500)**
Warranty liability at end of 2017:	**$33,000**

EXERCISE 10-13

(a) **<u>2016</u>: 900,000 × 35% × $0.01 = $3,150**
<u>2017</u>:1,200,000 × 35% × $0.01 = $4,200

(b) **2016- Stand-alone sales= $300,000**
Total value of goods =$300,000 + $3,150= $303,150

Amount to allocate to revenue = $300,000*($300,000/$303,150) = $296,883
Amount to allocate to unearned revenue–rewards program =
= $300,000* ($3,150/$303,150) = $3,117

2016	**Cash**	**300,000**	
	Sales		**296,883**
	Unearned Revenue–Loyalty Program		**3,117**

2017- Stand-alone sales= $400,000
Total value of goods = $400,000 + $4,200 = $404,200

Amount to allocate to revenue= $400,000 X ($400,000/$404,200) = $395,844
Amount to allocate to unearned revenue–rewards program =
$400,000 X ($4,200/$404,200) = $4,156

2017	**Cash**	**400,000**	
	Sales		**395,844**
	Unearned Revenue–Loyalty Program		**4,156**

EXERCISE 10-13 (Continued)

(c)

When the points are redeemed, the following entry would be done:

Unearned Revenue–Loyalty Program	***XXX***	
Cash	***XXX***	
Sales *..*		***XXX***
Cost of Goods Sold........................	**XXX**	
Inventory....................................		**XXX**

The redemption of the points increases net income as the unearned revenue is now recognized as earned. There is no impact on cash when the points are redeemed as the entry is to debit Unearned Revenue–Loyalty Program and credit Sales.

EXERCISE 10-14

(1) (a) Estimable. The amount and timing with respect to brake replacement is uncertain. The existence of the liability to replace the brakes is certain and the amount can be reasonably estimated. The liability should be recorded in the financial statements.

(b) Not required.

(2) (a) Estimable. The amount and timing with respect to "money back, no questions asked" guarantee is uncertain. The existence of the money back guarantee is certain.

(b) Not required.

(3) Same as (2) above.

(4) (a) Determinable. The timing with respect to the prizes to be distributed is uncertain. The existence of the liability and the cost of the trip are certain. The liability should be recorded in the financial statements.

(b) Not required.

(5) (a) Contingent Liability under both IFRS and ASPE. The contingent liability is neither likely nor unlikely and the amount cannot be reasonably estimated.

(b) Under both IFRS and ASPE, the contingent liability would be disclosed in the notes to the financial statements because the outcome and the amount are both unknown.

EXERCISE 10-15

(a) **The company should record an estimate of the cost of replacing the cribs in its financial statements. This liability is probable and can be reasonably estimated. The company also has a contingent liability with respect to the lawsuit. If the probability of loss of the lawsuit is remote, the company does not have to report or disclose anything else. If it is either possible (and the loss cannot be estimated) or if it cannot be determined if the lawsuit will be successful, the lawsuit should be disclosed in the notes as a contingent liability. If it is probable the lawsuit will be successful and the $1,500,000 is a reasonable estimate, it should be accrued as an estimated liability.**

(b) **If Sleep-a-Bye Baby Company's lawyers advise that it is likely that the company will have to pay damages of $100,000, then a journal entry should be recorded. The liability is likely and the amount can be reasonably estimated. The journal entry would be as follows:**

Loss due to Damages..................................	**100,000**	
Liability for Damages Due to Unsafe Cribs		**100,000**

(c) **If Sleep-a-Bye Baby Company is a private company, the answer to part (a) will be changed to assess the likelihood of loss from the lawsuit as "likely" rather than "probable". If the likelihood of loss of the lawsuit is remote, the company does not have to report or disclose anything else. If it is either "likely" (and the loss cannot be estimated) or if it cannot be determined if the lawsuit will be successful, the lawsuit should be disclosed in the notes as a contingent liability. If it is "likely" the lawsuit will be successful and the $1,500,000 is a reasonable estimate, it should be recorded. Part (b) stays the same, since the higher threshold of "likely" was applied.**

EXERCISE 10-16

(a)

Apr. 30	**Salaries Expense**	**46,600**	
	CPP Payable		**2,162**
	EI Payable		**853**
	Income Tax Payable		**9,011**
	Cash		**34,574**

(b)

Apr. 30	**Employee Benefits Expense**	**5,686**	
	CPP Payable		**2,162**
	EI Payable ($853 × 1.4)		**1,194**
	Workers' Compensation Payable ($46,600 × 1%)		**466**
	Vacation Pay Payable ($46,600 × 4%)		**1,864**

(c)

May 15	**CPP Payable ($2,162 + $2,162)**	**4,324**	
	EI Payable ($853 + $1,194)	**2,047**	
	Income Tax Payable	**9,011**	
	Cash		**15,382**

EXERCISE 10-17

(a)

AHMAD COMPANY
Payroll Register
Week Ended May 31

		Gross Earnings			Deductions					
Employee	Total Hours	Regular	Overtime	Gross Pay	CPP	EI	Income Tax	Health Insurance	Total	Net Pay
A. Kassam	47	$ 520.00	$136.50	$ 656.50	$29.17	$12.34	$ 85.55	$10.00	$137.06	$ 519.44
H. Faas	45	560.00	105.00	665.00	29.59	12.50	87.10	15.00	144.19	520.81
G. Labute	46	600.00	135.00	735.00	33.05	13.82	102.55	15.00	164.42	570.58
Totals		$1,680.00	$376.50	$2,056.50	$91.81	$38.66	$275.20	$40.00	$445.67	$1,610.83

(b)

May	31	Salaries Expense	2,056.50	
		CPP Payable		91.81
		EI Payable		38.66
		Income Tax Payable		275.20
		Health Insurance Payable		40.00
		Salaries Payable		1,610.83
	31	Employee Benefits Expense	309.32	
		CPP Payable ($91.81 × 1)		91.81
		EI Payable ($38.66 × 1.4)		54.12
		Workers' Compensation Payable ($2,056.50 × 2%)		41.13
		Vacation Pay Payable ($2,056.50 × 4%)		82.26
		Health Insurance Payable		40.00

EXERCISE 10-18

	Principal	Date Issued	Rate	Term	Current Portion	Non-Current Portion	Interest Payable
1.	$60,000	3/31/16	6%	6 yrs.	$10,000	$50,000	$2,700
2.	$30,000	7/1/16	4%	7 mo.	$30,000	$0	$600
3.	$120,000	9/1/16	5%	30 mo.	$48,000	$60,000	$450

Current Portion:
Note 1: One payment of $10,000 will be made in the coming year.
Note 3: $48,000 = 12 monthly payments × $4,000

Non-Current Portion:
Note 1: $50,000 = $60,000 – $10,000
Note 3: $60,000 = $120,000 – (3 payments in 2016 × $4,000) – $48,000

Interest Payable:
Note 1: $2,700 = $60,000 × 6% × 9/12
Note 2: $600 = $30,000 × 4% × 6/12
Note 3: $450 = [$120,000 – (3 payments in 2016 × $4,000)] × 5% × 1/12

EXERCISE 10-19

MEDLEN MODELS
(Partial) Balance Sheet
December 31, 2017

Current liabilities	
Accounts payable	$ 63,000
Salaries payable	32,000
Unearned revenue	70,000
Notes Payable	40,000
Litigation liability	25,000
Mortgage payable—current portion	90,000
Total current liabilities	$320,000

*EXERCISE 10-20

(a) Gross Pay = (40 hours × $22.60) + (4 hours × [$22.60 × 1.5])
= $904.00 + $135.60 = $1,039.60

Deductions (using Illustration 10A-3):

CPP [($1,039.60 – ($3,500 ÷ 52)) × 4.95%]	$48.13
EI ($1,039.60 × 1.88%)	19.54
Federal income tax (claim code 1)	123.05
Ontario income tax (claim code 1)	61.70
Total deductions	$252.42

(b)

June	15	Salaries Expense.......................	1,039.60	
		CPP Payable..........................		48.13
		EI Payable.............................		19.54
		Income Tax Payable ($123.05 + $61.70)		184.75
		Cash......................................		787.18

(c)

June	15	Employee Benefits Expense.....	75.49	
		CPP Payable..........................		48.13
		EI Payable ($19.54 × 1.4)		27.36

*EXERCISE 10-21

Month	Gross Salary	Cumulative Salary	CPP 4.95%	EI 1.88%
Jan. – Oct.	$47,500.00	$47,500.00	$ 2,206.90 [2]	$893.00 [4]
November	4,750.00	52,250.00	220.69 [1]	37.60 [5]
December	4,750.00	57,000.00	52.36 [3]	0
Totals	$57,000.00		$2,479.95	$930.60

1. CPP = ($4,750 – [$3,500 ÷ 12]) × 4.95% = $220.69
2. CPP = $220.69/month × 10 months = $2,206.90
3. CPP = $52.36 (annual CPP maximum – CPP to end of November = maximum to be deducted in November [$2,479.95 – ($220.69 × 11)

4. EI = $4,750 × 1.88% = $89.30
   EI = $86.93/month × 10 months = $893.00
5. EI = ($49,500 maximum insurable earnings – $47,500) × 1.88% = $37.60

SOLUTIONS TO PROBLEMS

PROBLEM 10-1A

Feb. 2	Supplies	2,500	
	Accounts Payable		2,500
10	Cash	48,816	
	Sales		43,200
	GST Payable		2,160
	PST Payable		3,456
15	Cash	35,000	
	Notes Payable		35,000
21	Salaries Expense	50,000	
	CPP Payable		2,308
	EI Payable		940
	Income Tax Payable		8,900
	Salaries Payable		37,852
21	Employee Benefits Expense	3,624	
	CPP Payable		2,308
	EI Payable ($940 x 1.4)		1,316
28	Interest Expense	87.50	
	Interest Payable		87.50
	($35,000 x 6% x 1/12 X .5)		
28	Warranty Expense	14,000	
	Warranty Liability		14,000
28	Salaries Payable	37,852	
	Cash		37,852

PROBLEM 10-1A (Continued)

Mar.	1	GST Payable	2,160	
		PST Payable	3,456	
		Cash		5,616
	2	Accounts Payable	2,500	
		Cash		2,500
	15	CPP Payable ($2,308 x 2)	4,616	
		EI Payable ($940 + $1,316)	2,256	
		Income Tax Payable	8,900	
		Cash		15,772

Taking It Further:

Some additional mandatory employee benefits paid entirely by the employer include payments to fund the workplace health, safety, and compensation plan. Vacations are also mandatory and the amounts and limits vary among provinces. The remaining benefits are not mandatory and have more to do with the negotiated employment package with employees. The latter could include full or partial payments into pension plans, savings plans, and medical or life insurance related coverage. Finally, again based on a business' practice, paid absences for sick leave, for example, are additional employee benefits paid by the employer.

Mandatory and negotiated employee benefit costs are accounted for as expenses when incurred.

PROBLEM 10-2A

(a)

Jan.	**2**	**Cash**	**27,000**	
		Notes Payable		**27,000**
	5	**Cash**	**23,165**	
		Sales		**20,500**
		HST Payable ($20,500 x 13%)		**2,665**
	12	**Unearned Revenue**	**10,000**	
		Service Revenue		**8,849**
		HST Payable		**1,151**
	14	**HST Payable**	**7,700**	
		Cash		**7,700**
	20	**Accounts Receivable**	**50,850**	
		Sales (900 X $50)		**45,000**
		HST Payable ($45,000 x 13%)		**5,850**
	25	**Cash**	**14,125**	
		Sales		**12,500**
		HST Payable ($12,500 x 13%)		**1,625**

(b)

	31	**Interest Expense**	**135**	
		Interest Payable		**135**
		($27,000 x 6% x 1/12)		
	31	**Warranty Expense**	**3,150**	
		Warranty Liability		**3,150**
		($45,000 x 7%)		

PROBLEM 10-2A (Continued)

(c)

ACCARDO COMPANY
(Partial) Balance Sheet
January 31, 2017

Current liabilities	
Accounts payable	$52,000
HST payable ($2,665 + $1,151+ $5,850 + $1,625)	11,291
Interest payable	135
Warranty liability	3,150
Unearned revenue ($16,000 - $10,000)	6,000
Notes payable	27,000
Total current liabilities	$99,576

Taking It Further:

Warranty liabilities and the related expenses are accrued at the time of the sale of the product on which the warranty applies. Merchants accrue the expenses before a customer has any issues with the product in order to recognize the expense in the same accounting period as the sale. This fulfills the matching principle in the conceptual framework of accounting. Doing so also honours the accrual basis of accounting. Failing to do so could result in the benefit of the sale occurring in one accounting period and the related expenses being incurred in a subsequent accounting period. This latter treatment would provide financial information that would be misleading to the financial statement users.

PROBLEM 10-3A

	Original Principal	Date issued	Rate	Term	(a) Current Portion		(b) Non-current Portion		(c) Interest Payable	
1	$ 35,000	Aug. 1/17	5.0%	10 months	$ 35,000		$ -		$ 145.83	[1]
2	$ 15,000	Sept. 1/17	4.0%	4 months	$ 15,000		$ -		$ 200.00	[2]
3	$ 26,000	Nov. 1/17	4.5%	6 months	$ 26,000		$ -		$ 195.00	[3]
4	$ 60,000	Mar. 31/17	3.5%	5 years	$ 12,000		$ 48,000		$1,575.00	[4]
5	$ 100,000	Oct. 1/17	5.0%	6 years	$ 24,000	[7]	$ 72,000	[8]	$ 400.00	[5]
6	$ 40,000	Jan. 31/16	5.0%	4 years	$ 10,000		$ 20,000	[9]	$ -	[6]

[1] $145.83 = $35,000 × 5.0% × 1/12
[2] $200.00 = $15,000 × 4.0% × 4/12
[3] $195.00 = $26,000 × 4.5% × 2/12
[4] $1,575.00 = $60,000 × 3.5% × 9/12
[5] $400.00 = $96,000 × 5.0% × 1/12
[6] Interest was paid on December 31, 2017

[7] current: $24,000 = $2,000 × 12 months
[8] non-current: $72,000 = $100,000 – $24,000 – $4,000
[9] non-current: $20,000 = $40,000 – ($10,000 × 2)

PROBLEM 10-3A (Continued)

Taking It Further:

For the maker, a note payable bears interest which is an additional cost. Some liabilities, such as accounts payable to suppliers are usually non-interest bearing as long as they are paid within the credit period. In addition, the term of the note may call for periodic payments of interest. This adds to the administrative burden of managing the note. The benefit to the maker is that the terms of the note are usually negotiated with the payee and the interest rate is more favourable than financing obtained through a bank. If the note is used to pay a supplier, the term of the note gives the maker additional time to repay the principal.

For the payee, the note provides a stream of interest revenue. Because it is a signed document, it also provides additional security of collection. The cost to the payee is that cash is not received until the note reaches maturity.

PROBLEM 10-4A

(a)	Jan.	12	Merchandise Inventory	25,000	
			Accounts Payable		25,000
		31	Accounts Payable	25,000	
			Notes Payable		25,000
	Feb.	28	Interest Expense	146	
			($25,000 × 7% × 1/12)		
			Cash		146
	Mar.	31	Notes Payable	14,000	
			Interest Payable	490	
			Interest Expense		
			($14,000 × 7% × 3/12)	245	
			Cash		14,735
	Mar.	31	Interest Expense	146	
			($25,000 × 7% × 1/12)		
			Cash		146
	Apr.	30	Notes Payable	25,000	
			Interest Expense		
			($25,000 × 7% × 1/12)	146	
			Cash		25,146
	Aug.	1	Equipment	41,000	
			Cash		11,000
			Notes Payable		30,000
	Sept.	30	Cash	100,000	
			Notes Payable		100,000
	Dec.	31	Interest Expense	1,250	
			($100,000 × 5% × 3/12)		
			Cash		1,250

PROBLEM 10-4A (Continued)

(a) (Continued)

Dec. 31	**Interest Expense**	**750**	
	($30,000 × 6% × 5/12)		
	Interest Payable		**750**

(b)

LEARNSTREAM COMPANY
(Partial) Balance Sheet
December 31, 2017

Current liabilities		
Notes payable		**$30,000**
Current portion of long-term notes payable		**10,000**
Interest payable		**750**
		40,750
Long-term liabilities		
Notes payable	**$100,000**	
Less current portion	**(10,000)**	**90,000**

(c)

LEARNSTREAM COMPANY
(Partial) Income Statement
Year Ended December 31, 2017

Other expense	
Interest expense	**$2,683**
($146 X 3) + $245 +$1,250 +$ 750) = $2,683	

PROBLEM 10-4A (Continued)

Taking It Further:

Notes payable are classified according to their maturity dates as being either current or non-current. This classification is also extended to the portion of long-term debt that is repayable in the current term. This classification is important because it represents amounts that must be settled within the next year and is an important factor in assessing the company's liquidity.

PROBLEM 10-5A

(a) Jan.	2	Cash	46,000	
		Notes Payable		46,000
	5	Cash	9,718	
		Sales		8,600
		HST Payable ($8,600 × 13%)		1,118
		Cost of Goods Sold	4,100	
		Merchandise Inventory		4,100
	12	Unearned Revenue	8,000	
		Service Revenue		7,080
		HST Payable		920
	14	HST Payable	8,630	
		Cash		8,630
	15	CPP Payable	1,320	
		EI Payable	680	
		Income Tax Payable	3,340	
		Cash		5,340
	17	Accounts Payable	14,800	
		Cash		14,800
	20	Accounts Receivable	118,085	
		Sales (1,900 × $55)		104,500
		HST Payable ($104,500 × 13%)		13,585
		Cost of Goods Sold (1,900 × $25)	47,500	
		Merchandise Inventory		47,500

PROBLEM 10-5A (Continued)

(a) (Continued)

Jan.	**29**	**Unearned Revenue–Loyalty Program**	**2,300**	
		HST Payable		**265**
		Revenue from Rewards Program ($2,300 − $265)		**2,035**
	31	**Cash**	**250,000**	
		Sales		**244,141**
		Unearned Revenue–Loyalty Program		**5,859**

Stand-alone sales	**$250,000**
Stand-alone value of loyalty points (30,000 × $1 × 20%)	**6,000**
Total Value	**$256,000**

Allocate as follows:

Earned revenue= ($250,000/$256,000) X $250,000 = $244,141

Unearned revenue= ($6,000/$256,000) X $250,000 = $5,859

	31	**Salaries Expense**	**18,750**	
		CPP Payable		**764**
		EI Payable		**343**
		Income Tax Payable		**3,481**
		Salaries Payable		**14,162**
	31	**Salaries Payable**	**14,162**	
		Cash		**14,162**

(b)

(1) Jan.	**31**	**Interest Expense**	**268**	
		Interest Payable ($46,000 × 7% × 1/12)		**268**

PROBLEM 10-5A (Continued)

(b) (Continued)

(2)	Jan. 31	Warranty Expense (1,900 × 9% × $10)	1,710	
		Warranty Liability		1,710
(3)	Jan. 31	Employee Benefits Expense	1,994	
		CPP Payable		764
		EI Payable ($343 × 1.4)		480
		Vacation Pay Payable		750
		($18,750 x 4%) = $750		
(4)	Jan. 31	Property Tax Expense ($8,820 ÷ 12)	735	
		Property Tax Payable		735

(c)

SHUMWAY SOFTWARE COMPANY
(Partial) Balance Sheet
January 31, 2017

Current liabilities	
Notes payable	$ 46,000
Accounts payable ($40,000 – $14,800)	25,200
Unearned revenue ($15,300 – $8,000	7,300
Unearned revenue–loyalty program ($3,700 - $2,300 + $5,859)	7,259
HST payable ($8,630 + $1,118 + $920 – $8,630 + $13,585 + $265)	15,888
Income tax payable ($3,340 – $3,340 + $3,481)	3,481
CPP payable ($1,320 – $1,320 + $764 + $764)	1,528
EI payable ($680 – $680 + $343 + $480)	823
Vacation pay payable ($8,660 + $750)	9,410
Property tax payable	735
Warranty liability	1,710
Interest payable	268
Total current liabilities	$ 119,602

PROBLEM 10-5A (Continued)

Taking It Further:

Most companies require employees to take their vacation as soon as possible after it is earned, usually after a year of work when the full annual entitlement is earned. This prevents the accumulation of vacation pay liability for the company, and ensures staff is rotated and cross-trained for other functions. Ensuring staff take vacation on a regular basis also results in stronger internal controls and reduces the likelihood of fraud and theft by ensuring one staff member's work is performed by another staff member. When employees take their vacation, the Vacation Pay Payable account is debited. The credit side of the entry is the same as for regular payroll: CPP Payable, EI Payable, Income Taxes Payable, and Salaries payable are credited.

PROBLEM 10-6A

(a) Warranty expense
2015 – (1,500 × 5% × $30) = $2,250
2016 – (1,700 × 5% × $30) = $2,550
2017 – (1,800 × 5% × $30) = $2,700

Warranty liability at year end
2015 – ($0 – $2,250 + $2,250) = $0
2016 – ($0 – $2,400 + $2,550) = $150
2017 – ($150 – $2,640 + $2,700) = $210

Note: See analysis of Warranty Liability account in (b) below.

(b)

2015	**Warranty Liability**	**2,250**	
	Repair Parts Inventory		**2,250**
	Warranty Expense (1,500 × 5% × $30)	**2,250**	
	Warranty Liability		**2,250**
2016	**Warranty Liability**	**2,400**	
	Repair Parts Inventory		**2,400**
	Warranty Expense (1,700 × 5% × $30)	**2,550**	
	Warranty Liability		**2,550**
2017	**Warranty Liability**	**2,640**	
	Repair Parts Inventory		**2,640**
	Warranty Expense (1,800 × 5% × $30)	**2,700**	
	Warranty Liability		**2,700**

PROBLEM 10-6A (Continued)

(b) (Continued)

Warranty Liability

Date	Explanation	Ref.	Debit	Credit	Balance
2015					
During			2,250		2,250 Dr
Dec. 31				2,250	0
2016					
During			2,400		2,400 Dr
Dec. 31				2,550	150
2017					
During			2,640		2,490 Dr
Dec. 31				2,700	210

(c) Percentage of units returned for repair =
Number of units returned ÷ Number of units sold

	Returned	Sold
2015	75	1,500
2016	90	1,700
2017	105	1,800
	270	5,000

Percentage returned = 270 ÷ 5,000 = 5.4%

Average actual warranty cost per unit =
Total actual warranty costs ÷ Total units returned

	Actual costs
2015	$2,250
2016	2,400
2017	2,640
	$7,290

Average warranty cost per unit over the three-year period:
$7,290 ÷ 270 = $27

PROBLEM 10-6A (Continued)

Taking It Further:

Revisions of estimates are applied prospectively. This means that the changes in estimates will be applied to 2017 only. The January 1, 2017 opening balance in the Warranty Liability account remains at $150. The revised warranty expense for 2017 is calculated as follows:

Warranty expense 2017:
1,800 × 7% × $27 = $3,402

Warranty liability at December 31, 2017:
$150 – $2,640 + $3,402 = $912

PROBLEM 10-7A

(a)
1. **Will reduce revenues and profit as a portion of the sales are allocated to the future performance obligation and therefore recorded as unearned revenues.**
2. **Increases revenues and profit (form of unearned revenue)**
3. **No effect on revenues, expenses, and profit**
4. **Increases revenues, expenses (cost of goods sold), and profit**

(b) 2016:

		Debit	Credit
1.	Cash	4,560,000	
	Sales		4,447,334
	Unearned Revenue–Loyalty Program		112,666

Stand-alone gas sales	$4,560,000
Stand-alone value of loyalty coupons ((3,800,000 x $0.038 x 80%)	115,520
Total Value	$4,675,520

Allocate as follows:
Earned revenue= ($4,560,000/$4,675,520) X $4,560,000 = $4,447,334
Unearned revenue = ($115,520/$4,675,520) X $4,560,000 = $112,666

		Debit	Credit
2.	Unearned Revenue-Loyalty Program	46,000	
	Revenue from Rewards Program		46,000

PROBLEM 10-7A (Continued)

(b) (Continued)

2017:

3.	Cash	6,045,000	
	Sales		5,906,870
	Unearned Revenue–Loyalty Program		138,130

Stand-alone gas sales..	$6,045,000
Stand-alone value of loyalty coupons	
(4,650,000 x $0.038 x 80%)................................	141,360
Total Value..	$6,186,360

Allocate as follows:
Earned revenue= ($6,045,000/$6,186,360) x $6,045,000 =$5,906,870
Unearned revenue= ($141,360 /$6,186,360) x $6,045,000 = $138,130

4.	Unearned Revenue–Loyalty Program	53,500	
	Revenue from Rewards Program		53,500
5.	Cash...	82,000	
	Unearned Revenue		82,000
	Unearned Revenue	45,000	
	Sales		45,000

PROBLEM 10-7A (Continued)

(c)

Unearned Revenue–Loyalty Program

Date	Explanation	Ref.	Debit	Credit	Balance
2016					
During				112,666	112,666
Dec. 31			46,000		66,666
2017					
During				138,130	204,796
Dec. 31			53,500		151,296

Unearned Revenue

Date	Explanation	Ref.	Debit	Credit	Balance
2017					
During				82,000	82,000
Dec. 31			45,000		37,000

Taking It Further:

Management should consider the following factors:

- **The historical rate of redemption on the grocery coupons. Some coupons will never be redeemed and management needs to determine over time, if the estimated redemption rate should be revised.**
- **Factors to consider for the gift cards include long periods of inactivity by customers, or low residual balances. These factors increase the likelihood that the cards will not be used. Unearned revenue linked to gift cards where there is a remote chance they will be used can be transferred to a revenue account.**

PROBLEM 10-8A

1. **Note disclosure: It does not appear that it is probable that the company will lose the lawsuit. If the possibility of loss is considered remote, Mega Company would not need to disclose the lawsuit.**

2. **Note disclosure: Since it is likely that the company will lose the lawsuit, but the amount of the liability cannot be reliably measured, the lawsuit should be disclosed.**

3. **Accrue in the financial statements: Because Mega has negotiated a settlement, it now has a liability and the amount is measurable.**

Taking It Further:

Making an accrual for a contingency reflects the impact of the loss on the current year's profit. If the contingency is only reflected in the notes and not accrued, its impact on the financial results is not as readily visible. Thus a benefit of recording the accrual is that it allows users of financial statements to make better informed decisions. Also, by reflecting the amounts in the financial statements, this improves the ability of users to generate meaningful ratios.

The cost of accruing a contingency is that companies must be very careful in wording the information in order to avoid the appearance of admitting culpability in matters that are not fully resolved. In addition, until the loss and liability are probable and measurable, the company risks damaging its ability to attract investors or obtain credit by portraying weaker financial results if the loss and liability are not realized in a later period.

PROBLEM 10-9A

(a)

SURE VALUE HARDWARE
Payroll Register
Week Ended March 14, 2017

		Gross Earnings			Deductions					
Employee	Hours	Regular	Over-time	Gross Pay	CPP	EI	Income Tax	United Way	Total	Net Pay
I. Dahl	37.5	$637.50	0	$637.50	$27.80	$11.83	$82.25	$ 7.50	$129.38	$508.12
F. Gualtieri	42.5	660.00	$61.88	721.88	32.40	13.57	91.20	8.00	145.17	576.71
G. Ho	43.5	620.00	81.38	701.38	31.39	13.19	97.50	5.00	147.08	554.30
A. Israeli	45	600.00	112.50	712.50	31.94	13.40	107.75	10.00	163.09	549.41
Totals		$2,517.50	$255.76	$2,773.26	$123.53	$51.99	$378.70	$30.50	$584.72	$2,188.54

PROBLEM 10-9A (Continued)

(b)	Mar. 14	Salaries Expense	2,773.26	
		CPP Payable		123.53
		EI Payable		51.99
		Income Tax Payable		378.70
		United Way Contributions Payable		30.50
		Salaries Payable		2,188.54
	14	Employee Benefits Expense	307.25	
		CPP Payable ($123.53 × 1)		123.53
		EI Payable ($51.99 × 1.4)		72.79
		Vacation Pay Liability		110.93
		Vacation pay liability = $2,773.26 × 4%		
(c)	Mar. 14	Salaries Payable	2,188.54	
		Cash		2,188.54
(d)	Apr. 15	CPP Payable ($123.53 + $123.53)	247.06	
		EI Payable ($51.99 + $72.79)	124.78	
		Income Tax Payable	378.70	
		Cash		750.54

PROBLEM 10-9A (Continued)

Taking It Further:

The owner of a proprietorship is not considered an employee for income tax purposes. Since the business is not a separate legal entity, the owner is considered to own all of the profit of the business and is taxed on his/her personal income tax return for the profit of the business and not on the drawings. Income tax payments are usually made through the payment of instalments rather than through monthly remittances with the employees' payroll.

A proprietor is not required, nor able, to pay EI on business profit for purposes of collecting employment insurance if he or she is not working. However, a proprietor can choose to pay EI for special benefits such as sickness or maternity benefits. Business profit is considered pensionable earnings for CPP and the owner must make CPP remittances on the business profit. This is accomplished through the owner's personal income tax return and is not calculated or remitted as part of the payroll function.

PROBLEM 10-10A

(a)

Feb.	4	Union Dues Payable	1,450	
		Cash		1,450
	7	Disability Insurance Payable	1,280	
		Life Insurance Payable	855	
		Cash		2,135
	13	CPP Payable	7,887	
		EI Payable	3,755	
		Income Tax Payable	16,252	
		Cash		27,894
	20	Workers' Compensation Payable	4,275	
		Cash		4,275
	28	Salaries Expense	92,600	
		CPP Payable		4,281
		EI Payable		1,695
		Income Tax Payable		17,595
		Union Dues Payable		1,574
		Disability Insurance Payable		1,380
		Salaries Payable		66,075
	28	Salaries Payable	66,075	
		Cash		66,075
	28	Employee Benefits Expense	15,914	
		CPP Payable		4,281
		EI Payable ($1,695 × 1.4)		2,373
		Workers' Compensation Payable ($92,600 × 5%)		4,630
		Vacation Pay Payable ($92,600 × 4%)		3,704
		Life Insurance Payable ($92,600 × 1%)		926

PROBLEM 10-10A (Continued)

(b)

Canada Pension Plan Payable

Date		Explanation	Ref.	Debit	Credit	Balance
Feb.	1	Balance	✓			7,887
	13			7,887		0
	28				4,281	4,281
	28				4,281	8,562

Employment Insurance Payable

Date		Explanation	Ref.	Debit	Credit	Balance
Feb.	1	Balance	✓			3,755
	13			3,755		0
	28				1,695	1,695
	28				2,373	4,068

Income Tax Payable

Date		Explanation	Ref.	Debit	Credit	Balance
Feb.	1	Balance	✓			16,252
	13			16,252		0
	28				17,595	17,595

Workers' Compensation Payable

Date		Explanation	Ref.	Debit	Credit	Balance
Feb.	1	Balance	✓			4,275
	20			4,275		0
	28				4,630	4,630

PROBLEM 10-10A (Continued)

(b) (Continued)

Union Dues Payable

Date		Explanation	Ref.	Debit	Credit	Balance
Feb.	1	Balance	✓			1,450
	4			1,450		0
	28				1,574	1,574

Life Insurance Payable

Date		Explanation	Ref.	Debit	Credit	Balance
Feb.	1	Balance	✓			855
	7			855		0
	28				926	926

Vacation Pay Payable

Date		Explanation	Ref.	Debit	Credit	Balance
Feb.	1	Balance	✓			20,520
	28				3,704	24,224

Disability Insurance Payable

Date		Explanation	Ref.	Debit	Credit	Balance
Feb.	1	Balance	✓			1,280
	7			1,280		0
	28				1,380	1,380

Salaries Payable

Date		Explanation	Ref.	Debit	Credit	Balance
Feb.	28		✓		66,075	66,075
	28			66,075		0

PROBLEM 10-10A (Continued)

Taking It Further:

The employee earning record is required to determine the employee's total earnings for the year and total deductions. This document is used to prepare the annual T4 slip that is required for the employee's income tax filing requirement. This information is also filed with CRA by the employer. The employee earning record also helps the employer determine when the employee has reached maximum pensionable and insurable earnings for CPP and EI purposes. The earning record is also used for other requirements such as the statement of earnings for EI benefits.

The payroll register contains the current pay information for all employees for a particular pay period. It allows the company to accumulate gross pay, CPP, EI, Income tax, and other amounts withheld from the employees' pay. The summary information can then be used to prepare the journal entry and paycheques for each employee.

PROBLEM 10-11A

(a)

LIGHTHOUSE DISTRIBUTORS
(Partial) Balance Sheet
September 30, 2017

Current liabilities	
Bank indebtedness	$ 62,500
Accounts payable	90,000
Warranty liability	22,500
Property taxes payable	10,000
CPP payable	7,500
EI payable	3,750
Workers' compensation payable	1,250
Vacation pay payable	13,500
Income tax payable	35,000
HST payable	15,000
Interest payable	10,000
Unearned revenue–loyalty program	5,000
Unearned card revenue	30,000
Current portion of notes payable	12,000
Current portion of mortgage payable	10,000
Total current liabilities	$328,000

(b) **Current assets:**
$182,000 + $275,000 + $12,500 = $469,500

Current ratio:
$469,500 ÷ $328,000 = 1.43:1

Acid-test ratio:
$182,000 ÷ $328,000 = 0.55:1

PROBLEM 10-11A (Continued)

(c) LightHouse Distributors did not show any cash on the trial balance because the bank account is in overdraft which represents a loan to LightHouse from the bank. LightHouse is using its line of credit to pay off its current liabilities, until its accounts receivable are collected and can provide cash for use in operations. The current ratio is low, but LightHouse still has $75,000 available in its line of credit for immediate cash needs.

Taking It Further:

The accountant is not correct. Recording a full year of property tax expense when the payment is made, on the basis that the payment is unavoidable is not proper accounting. The property taxes are paid for a full calendar year of services to be delivered by the municipality or city. These services are not obtained at the time of the tax payment. The payment should be allocated to property tax expense in all accounting periods that benefit from the services provided during the year. The expense for property taxes is recognized through the passage of time, evenly over the fiscal year.

PROBLEM 10-12A

(a)

MAPLE LEAF FOODS INC.
(Partial) Balance Sheet
December 31, 2014
(in thousands)

Current liabilities	
Accounts payable and accruals	$275,249
Income taxes payable	26,614
Current portion of long-term debt	472
Other current liabilities	24,383
Provisions	60,443
Total current liabilities	$387,161

(b) Current assets = $496,328 + $60,396 + $105,743 + $270,401 + $110,209 + $20,157 = $1,063,234

Current ratio: $1,063,234 ÷ $387,161 = 2.75:1

Acid-test ratio: ($496,328 + $60,396 + $110,209) ÷ $387,161 = 1.72:1

(c) Current ratio Dec. 31, 2013:
$1,183,171 ÷ $966,522 = 1.22:1

Acid-test ratio Dec. 31, 2013: ($506,670 + $111,034+ 115,514) ÷ $966,522 = 0.76:1

Both the current ratio and the asset test ratio improved considerably in 2014.

PROBLEM 10-12A (Continued)

Taking It Further:

In assessing liquidity, we should also look at the receivables and inventory turnover ratios to ensure that the current assets are liquid. A slow-down in the turnover ratios of receivables and inventory would trigger an increase in current assets and in the current ratio, but would signal a decrease in the liquidity of receivables and inventory.

We should also look at the difference between the acid-test ratio and the current ratio. The acid-test ratio uses only the liquid current assets (those that can be converted to cash readily). A significant difference between the current ratio and the acid-test ratio may indicate that the company has less short-term liquidity. In the case of Maple Leaf Foods Inc. the acid-test ratio is less than the current ratio indicating that the company has a high proportion of less liquid current assets.

Other factors to consider include general economic and industry conditions, as well as comparisons with ratios from other companies in the same or related industries.

*PROBLEM 10-13A

(a)

WESTERN ELECTRIC COMPANY
Payroll Register
Week Ended June 9, 2015

		Deductions					
Employee	Gross Pay	CPP	EI	Federal Income Tax	Ontario Income Tax	Total Deductions	Net Pay
C. Tanm	$945.00	$43.45 [1]	$17.77 [4]	$99.85	$52.10	$213.17	$731.83
T. Ng	1,130.00	52.60 [2]	21.24 [5]	125.90	64.45	264.19	865.81
O. Stavtech	1,130.00	52.60 [2]	21.24 [5]	141.50	69.60	284.94	845.06
A. Mandell	1,067.00	49.48 [3]	20.06 [6]	128.30	64.10	261.94	805.06
Totals	$4,272.00	$198.13	$80.31	$495.55	$250.25	$1,024.24	$3,247.76

1. CPP = ($945.00 – [$3,500 ÷ 52]) × 4.95% = $43.45
2. CPP = ($1,130.00 – [$3,500 ÷ 52]) × 4.95% = $52.60
3. CPP = ($1,067.00 – [$3,500 ÷ 52]) × 4.95% = $49.48

4. EI = $945.00 × 1.88% = $17.77
5. EI = $1,130.00 × 1.88% = $21.24
6. EI = $1,067.00 × 1.88% = $20.06

*PROBLEM 10-13A (Continued)

(b) Semi-monthly Payroll Ended June 15, 2015:

Employee	Annual Salary	Gross Pay	CPP 4.95%	EI 1.88%
S. Goodspeed	$43,440	$1,810.00	$ 82.38 [1]	$34.03 [4]
M. Giancarlo	64,770	2,698.75	126.37 [2]	50.74 [5]
H. Ridley	76,880	3,203.33	151.35 [3]	60.22 [6]

1. CPP = ($1,810.00 – [$3,500 ÷ 24]) × 4.95% = $82.38
2. CPP = ($2,698.75 – [$3,500 ÷ 24]) × 4.95% = $126.37
3. CPP = ($3,203.33 – [$3,500 ÷ 24]) × 4.95% = $151.35

4. EI = $1,810.00 × 1.88% = $34.03
5. EI = $2,698.75 × 1.88% = $50.74
6. EI = $3,203.33 × 1.88% = $60.22

(c) Pay period in which CPP maximum is reached = Maximum annual employee CPP contribution ÷ semi-monthly contribution for the employee (the answer is rounded up since the maximum is reached in the next pay period).

Pay period in which EI maximum is reached = Maximum annual employee EI premium ÷ semi-monthly premium for the employee (the answer is rounded up since the maximum is reached in the next pay period).

<u>S. Goodspeed:</u> His annual salary is less than the maximum pensionable earnings and the maximum insurance earnings. He will not reach the maximum CPP and EI payments for 2015.

<u>M. Giancarlo:</u>
Pay period in which CPP maximum is reached = $2,479.95 ÷ $126.37 = 19.6; rounded up to pay period 20 (October 31).

*PROBLEM 10-13A (Continued)

(c) (Continued)

Pay period in which EI maximum is reached = $930.60 ÷ $50.74 = 18.34; rounded up to pay period 19 (October 15).

<u>H. Ridley:</u>
Pay period in which CPP maximum is reached = $2,479.95 ÷ $151.35 = 16.39; rounded up to pay period 17 (September 15).

Pay period in which EI maximum is reached = $930.60 ÷ $60.22 = 15.45; rounded up to pay period 16 (August 31).

Taking It Further:

The payroll tables are prepared for various pay periods used by different companies, or for different groups of employees of the same company. The amounts of CPP, EI, and income tax to be deducted are all dependent upon the length of the pay period, thus different tables are required.

PROBLEM 10-1B

Feb.	1	Cash	30,000	
		Notes Payable		30,000
	8	Accounts Receivable	16,385	
		Sales		14,500
		HST Payable		1,885
	14	Salaries Expense	15,000	
		CPP Payable		692
		EI Payable		282
		Income Tax Payable		2,700
		Salaries Payable		11,326
	14	Employee Benefits Expense	1,087	
		CPP Payable		692
		EI Payable ($282 x 1.4)		395
	15	Furniture	1,975	
		Accounts Payable		1,975
	21	Salaries Payable	11,326	
		Cash		11,326
	28	Interest Expense	125	
		Interest Payable		125
		($30,000 x 5% x 1/12)		
	28	Warranty Expense	500	
		Warranty Liability		500

PROBLEM 10-1B (Continued)

Taking It Further:

The accountant is mostly correct. Accounts payable are an example of a current liability that can be expected to be paid within the next year. However, unearned revenue is a current liability that will not be paid within the year, but can be expected to be extinguished by goods or services being provided.

PROBLEM 10-2B

(a)Jan.	1	Cash	30,000	
		Notes Payable		30,000
	5	Cash	11,648	
		Sales		10,400
		GST Payable ($10,400 x 5%)		520
		PST Payable ($10,400 x 7%)		728
	12	Unearned Revenue	9,000	
		Service Revenue		8,036
		GST Payable		402
		PST Payable		562
	14	GST Payable	5,800	
		Cash		5,800
	20	Accounts Receivable	52,416	
		Sales (900 X $52)		46,800
		GST Payable ($46,800 x 5%)		2,340
		PST Payable ($46,800 x 7%)		3,276
	25	Cash	20,966	
		Sales		18,720
		GST Payable ($18,720 x 5%)		936
		PST Payable ($18,720 x 7%)		1,310
(b)				
	31	Interest Expense	200	
		Interest Payable		200
		($30,000 x 8% x 1/12)		
	31	Warranty Expense	2,340	
		Warranty Liability		2,340
		($46,800 x 5%)		

PROBLEM 10-2B (Continued)

(c)

EDMISTON SOFTWARE COMPANY
(Partial) Balance Sheet
January 31, 2017

Current liabilities	
Accounts payable	$42,500
GST payable ($520 + $402 + $2,340 + $936)	4,198
PST payable ($728 + $562 + $3,276 + $1,310)	5,876
Interest payable	200
Warranty liability	2,340
Unearned revenue ($15,000 - $9,000)	6,000
Notes payable	30,000
Total current liabilities	$91,114

Taking It Further:

James is incorrect. The payroll taxes withheld are amounts that belong to the employee. The employer is instructed by law to take from the gross pay of employees and remit these amounts for income taxes, CPP, and EI to the Receiver General. By doing so, these amounts reach the CPP and EI funds to finance the benefits to which employees are entitled. As well, the remittances represent instalments on individual employees' tax liability accounts for federal and provincial income taxes withheld. The employer has already recognized the expense as part of the gross salaries paid to the employees. The gross amount of the salaries is debited to Salaries Expense. The employee benefits are paid by the employer to the Receiver General along with the employer's portion of CPP and EI payments, which are over and above what has been deducted from the employee's pay.

PROBLEM 10-3B

	Principal	Date issued	Rate	Term	(a) Current Portion		(b) Non-current Portion		(c) Interest Payable	
1	$ 25,000	July 1/17	5.00%	9 months	$ 25,000		$ -		$ 104.17	[1]
2	$ 10,000	Sept. 1/17	4.00%	6 months	$ 10,000		$ -		$ 133.33	[2]
3	$ 40,000	Nov. 1/17	4.50%	7 months	$ 40,000		$ -		$ 300.00	[3]
4	$ 80,000	May 31/17	3.75%	5 years	$ 16,000		$ 64,000		$1,750.00	[4]
5	$ 126,000	Oct. 1/17	4.25%	3 years	$ 42,000	[7]	$ 77,000	[8]	$ 421.46	[5]
6	$ 50,000	Mar. 31/16	5.00%	4 years	$ 12,500	[9]	$ 25,000	[9]	$ -	[6]

[1] $104.17 = $25,000 × 5.0% × 1/12
[2] $133.33 = $10,000 × 4.0% × 4/12
[3] $300.00 = $40,000 × 4.5% × 2/12
[4] $1,750.00 = $80,000 × 3.75% × 7/12
[5] $421.46 = ($126,000 – [2 × $3,500]) × 4.25% × 1/12
[6] Interest was paid on December 31, 2017

[7] current: $42,000 = $3,500 × 12 months
[8] non-current: $77,000 = $126,000 – ($3,500 × 2) – $42,000
[9] non-current: $25,000 = $50,000 – ($12,500 × 2)

PROBLEM 10-3B (Continued)

Taking It Further:

For the maker, a note payable bears interest, which is an additional cost. Some liabilities, such as accounts payable to suppliers, are usually non-interest bearing as long as they are paid within the credit period. In addition, the term of the note may call for periodic payments of interest. This adds to the administrative burden of managing the note. The benefit to the maker is that the terms of the note are usually negotiated with the payee and the interest rate is more favourable than financing obtained through a bank. If the note is used to pay a supplier, the term of the note gives the maker additional time to repay the principal.

For the payee, the note provides a stream of interest revenue. Because it is a signed document, it also provides additional security of collection. The cost to the payee is that cash is not received until the note reaches maturity.

PROBLEM 10-4B

(a)

2016:				
Dec.	1	Interest Expense		
		($15,000 × 6% × 1/12).................	75	
		Interest Payable.........................	375	
		Notes Payable............................	15,000	
		Cash......................................		15,450
2017:				
Apr.	1	Land	75,000	
		Notes Payable		75,000
Apr.	30	Equipment.................................	8,000	
		Accounts Payable		8,000
May	31	Accounts Payable......................	8,000	
		Notes Payable		8,000
July	1	Interest Expense	1,313	
		($75,000 × 7% × 3/12)		
		Cash......................................		1,313
Aug.	31	Interest Expense		
		($8,000 × 8% × 3/12)...................	160	
		Note Payable.............................	8,000	
		Cash......................................		8,160
Oct.	1	Interest Expense		
		($75,000 × 7% × 3/12)................	1,313	
		Cash......................................		1,313
Oct.	1	Cash	90,000	
		Notes Payable		90,000
	31	Interest Expense	888	
		[($90,000 × 6% × 1/12) + ($1,313 × ⅓)]		
		Interest Payable		888

PROBLEM 10-4B (Continued)

(b)

MILEHI MOUNTAIN BIKES
(Partial) Balance Sheet
October 31, 2017

Current liabilities		
Notes payable		$75,000
Current portion of long-term notes payable		18,000
Interest payable		888
Total current liabilities		93,888
Long-term liabilities		
Notes payable	$90,000	
Less current portion	(18,000)	72,000

(c)

MILEHI MOUNTAIN BIKES
(Partial) Income Statement
Year ended October 31, 2017

Other expenses	
Interest expense	$3,749*

*($75 + $1,313 + $160 + $1,313 + $888)

Taking It Further:

Notes payable are classified according to their maturity dates as being either current or non-current. This classification is also extended to the current maturity of the portion of long-term debt that is repayable in the current term. This classification is important because it shows the amount that must be settled within one year, which is an important factor in evaluating the company's liquidity.

PROBLEM 10-5B

(a) Jan.	5	Cash	17,854	
		Sales		15,800
		HST Payable ($15,800 × 13%)		2,054
	12	Unearned Revenue	7,000	
		HST Payable		805
		Service Revenue		6,195
	14	HST Payable	11,390	
		Cash		11,390
	15	CPP Payable	2,152	
		EI Payable	1,019	
		Income Tax Payable	4,563	
		Cash		7,734
	16	Cash	18,000	
		Notes Payable		18,000
	17	Accounts Payable	35,000	
		Cash		35,000
	20	Accounts Receivable	33,900	
		Sales (500 × $60)		30,000
		HST Payable ($30,000 × 13%)		3,900
	30	Unearned Revenue- Loyalty Program	1,750	
		HST Payable ($1,549 × 13%)		201
		Service Revenue ($1,750 ÷ 1.13)		1,549

PROBLEM 10-5B (Continued)

(a) (Continued)

Jan.	31	Cash	500,000	
		Sales		495,050
		Unearned Revenue–Loyalty Program		4,950

Stand-alone sales	$500,000
Stand-alone value of loyalty points (50,000 × 10% × $1)	5,000
Total Value	$505,000

Allocate as follows:

Earned revenue = ($500,000/$505,000) x $500,000 = $495,050

Unearned revenue = ($5,000/$505,000) x $500,000 = $4,950

	31	Warranty Liability	875	
		Repair Parts Inventory		875
	31	Salaries Expense	25,350	
		CPP Payable		1,183
		EI Payable		464
		Income Tax Payable		4,563
		Salaries Payable		19,140
	31	Salaries Payable	19,140	
		Cash		19,140

(b)	Jan.	31	Interest Expense	45	
			Interest Payable		45
			[($18,000 × 6% × 1/12) × 1/2]		
		31	Warranty Expense	300	
			Warranty Liability		300
			(500 × 6% × $10)		
		31	Employee Benefits Expense	2,847	
			CPP Payable		1,183
			EI Payable ($464 × 1.4)		650
			Vacation Pay Payable ($25,350 × 4%)		1,014

PROBLEM 10-5B (Continued)

(c)

ZAUR COMPANY
(Partial) Balance Sheet
January 31, 2017

Liabilities

Current liabilities	
Accounts payable ($63,700 – $35,000)	$28,700
Notes payable	18,000
Vacation pay liability ($9,120 + $1,014)	10,134
Unearned revenue ($16,000 – $7,000)	9,000
Unearned revenue–loyalty program ($2,150 – $1,750 + $4,950)	5,350
HST payable ($11,390 + $2,054 + $805 – $11,390 + $3,900 + $201)	6,960
Warranty liability ($5,750 – $875 + $300)	5,175
Income tax payable ($4,563 – $4,563 + $4,563)	4,563
CPP payable ($2,152 – $2,152 + $1,183 + $1,183)	2,366
EI payable ($1,019 – $1,019 + $464 + $650)	1,114
Interest payable	45
Total current liabilities	$91,407

Taking It Further:

Most companies require employees to take their vacation as soon as possible after it is earned, usually after a year of work when the full annual entitlement is earned. This prevents the accumulation of vacation pay liability for the company, and ensures staff is rotated and cross-trained for other functions. Ensuring staff take vacation on a regular basis also results in stronger internal controls and reduces the likelihood of fraud and theft by ensuring one staff member's work is performed by another staff member. When employees take their vacation, the Vacation Pay Payable account is debited. The credit side of the entry is the same as for regular payroll: CPP Payable, EI Payable, Income Taxes Payable, and Salaries Payable are credited.

PROBLEM 10-6B

(a) Warranty expense
2015 – (1,200 × 5% × $25) = $1,500
2016 – (1,320 × 5% × $25) = $1,650
2017 – (1,420 × 5% × $25) = $1,775

Warranty liability at year end
2015 – ($0 – $1,275 + $1,500) = $225
2016 – ($225 – $1,600 + $1,650) = $275
2017 – ($275 – $1,960 + $1,775) = $90

Note: See analysis of Warranty Liability account in (b) below.

(b)

<u>2015</u>			
	Warranty Liability	**1,275**	
	Repair Parts Inventory...................		**1,275**
Dec. 31	**Warranty Expense (1,200 × 5% × $25)**	**1,500**	
	Warranty Liability...........................		**1,500**
<u>2016</u>			
	Warranty Liability	**1,600**	
	Repair Parts Inventory...................		**1,600**
Dec. 31	**Warranty Expense (1,320 × 5% × $25)**	**1,650**	
	Warranty Liability...........................		**1,650**
<u>2017</u>			
	Warranty Liability	**1,960**	
	Repair Parts Inventory...................		**1,960**
Dec. 31	**Warranty Expense (1,420 × 5% × $25)**	**1,775**	
	Warranty Liability...........................		**1,775**

PROBLEM 10-6B (Continued)

(b) (Continued)

Warranty Liability

Date	Explanation	Ref.	Debit	Credit	Balance
2015					
During			1,275		1,275 Dr
Dec. 31				1,500	225
2016					
During			1,600		1,375 Dr
Dec. 31				1,650	275
2017					
During			1,960		1,685 Dr
Dec. 31				1,775	90

(c) **Percentage of units returned for repair =**
Number of units returned ÷ Number of units sold

	Returned	Sold
2015	60	1,200
2016	70	1,320
2017	80	1,420
	210	3,940

Percentage returned = 210 ÷ 3,940 = 5.3%

Average actual warranty cost per unit =
Total actual warranty costs ÷ Total units returned

	Actual costs
2015	$1,275
2016	1,600
2017	1,960
	$4,835

Average warranty cost over the three-year period:
$4,835 ÷ 210 = $23

PROBLEM 10-6B (Continued)

Taking It Further:

Revisions of estimates are applied prospectively. This means that the changes in estimates will be applied to 2017 only. The January 1, 2017 opening balance in the Warranty Liability account remains at $275. The revised warranty expense for 2017 is calculated as follows:

Warranty expense 2017:
1,420 × 7% × $25 = $2,485

Warranty liability at December 31, 2017:
$275 – $1,960 + $2,485 = $800

PROBLEM 10-7B

(a) 1. Will reduce revenues and profit as a portion of the sales are allocated to the future performance obligation and therefore recorded as unearned revenues

2. Increases revenues and profit

3. No effect on revenues, expenses, and profit

4. Increases revenues, expenses (cost of goods sold), and profit

<u>2016:</u>

1.	**Cash**	**1,050,000**	
	Sales		**1,037,037**
	Unearned Revenue–Loyalty Program		**12,963**

Stand-alone gas sales	**$1,050,000**
Stand-alone value of loyalty coupons	
(750,000 × $0.025 x 70%)	**13,125**
Total Value	**$1,063,125**

Allocate as follows:
Earned revenue= ($1,050,000/$1,063,125) x $1,050,000 = $1,037,037
Unearned revenue= ($13,125/$1,063,125) x $1,050,000 = $12,963

2.	**Unearned Revenue–Loyalty Program**	**5,950**	
	Revenue from Rewards Program		**5,950**

PROBLEM 10-7B (Continued)

(b) (Continued)

2017:			
3.	**Cash**	**1,255,000**	
	Sales		**1,240,983**
	Unearned Revenue–Loyalty Program		**14,017**

Stand-alone gas sales	**$1,255,000**
Stand-alone value of loyalty coupons (810,000 × $0.025 x 70%)	**14,175**
Total Value	**$1,269,175**

Allocate as follows:
Earned revenue= ($1,255,000/$1,269,175) x $1,255,000 = $1,240,983
Unearned revenue= ($14,175 /$1,269,175) x $1,255,000 = $14,017

4.	**Unearned Revenue–Loyalty Program**	**9,500**	
	Revenue from Rewards Program		**9,500**
5.	**Cash**	**3,950**	
	Unearned Revenue		**3,950**
	Unearned Revenue	**1,500**	
	Sales		**1,500**

PROBLEM 10-7B (Continued)

(c)

Unearned Revenue–Loyalty Program

Date	Explanation	Ref.	Debit	Credit	Balance
2016					
During				12,963	12,963
Dec. 31			5,950		7,013
2017					
During				14,017	21,030
Dec. 31			9,500		11,530

Unearned Revenue

Date	Explanation	Ref.	Debit	Credit	Balance
2017					
During				3,950	3,950
Dec. 31			1,500		2,450

Taking It Further:

Management should consider the following factors:

- **The historical rate of redemption on the service coupons should be reviewed and revised as needed to ensure an appropriate amount of revenue is being recorded and an appropriate amount of revenue is being deferred.**
- **The likelihood of redemption of the gift cards. Factors such as long periods of inactivity by customers, or low residual balances increase the likelihood that the cards will not be used. Unearned revenue linked to gift cards where the likelihood of use is remote should be transferred to a revenue account.**

PROBLEM 10-8B

1. Note disclosure: Since the amount of the liability cannot be reliably measured, the lawsuit cannot be recorded, but it should be disclosed.

2. It appears that it is unlikely that Big Fork will lose the lawsuit; therefore the company does not need to record or report it in the notes to the financial statements. If the loss from the lawsuit could have a substantial negative effect on the company's financial position, then note disclosure is still desirable.

3. Accrue in the financial statements: It appears likely that the company will lose this claim as it was at fault and the claim of $250,000 appears to be a reasonable estimate.

Taking It Further:

Making an accrual for a contingency reflects the impact of the loss on the current year's profit. This allows users of financial statements to make better informed decisions. If the contingency is only reflected in the notes and not accrued, its impact on the financial results is not as readily visible. Also, by reflecting the amounts in the financial statements, this improves the ability of users to generate meaningful ratios. The cost of accruing a contingency is that companies must be very careful in wording the information in order to avoid the appearance of admitting culpability in matters that are not fully resolved. In addition, until the loss and liability are likely and measurable, the company risks damaging its ability to attract investors or obtain credit by portraying weaker financial results if the loss and liability are not realized in a later period.

PROBLEM 10-9B

(a)

SCOOT SCOOTERS
Payroll Register
Week Ended February 17, 2015

		Earnings			Deductions					
Employee	Hours	Regular	Overtime	Gross Pay	CPP	EI	Income Tax	United Way	Total	Net Pay
P. Kilchyk	40	$610.00	0	$610.00	$26.86	$11.16	$76.60	$5.00	$119.62	$490.38
B. Quon	42	600.00	$45.00	645.00	28.60	11.80	83.70	7.25	131.35	513.65
C. Pospisil	40	650.00	0	650.00	28.84	11.90	84.10	5.50	130.34	519.66
B. Verwey	44	580.00	87.00	667.00	29.68	12.21	87.10	8.25	137.24	529.76
Totals		$2,440.00	$132.00	$2,572.00	$113.98	$47.07	$331.50	$26.00	$518.55	$2,053.45

PROBLEM 10-9B (Continued)

(b)	Feb.15	Salaries Expense	2,572.00	
		CPP Payable		113.98
		EI Payable		47.07
		Income Tax Payable		331.50
		United Way Contributions Payable		26.00
		Salaries Payable		2,053.45
	15	Employee Benefits Expense	282.76	
		CPP Payable		113.98
		EI Payable ($47.07 × 1.4)		65.90
		Vacation Pay Payable ($2,572.00 × 4%)		102.88
(c)	Feb.17	Salaries Payable	2,053.45	
		Cash		2,053.45
(d)	Mar.15	CPP Payable ($113.98 + $113.98)	227.96	
		EI Payable ($47.07 + $65.90)	112.97	
		Income Tax Payable	331.50	
		Cash		672.43

PROBLEM 10-9B (Continued)

Taking It Further:

The owner of a proprietorship is not considered an employee for income tax purposes. Since the business is not a separate legal entity, the owner is considered to own all of the profit of the business and is taxed on his/her personal income tax return for the profit of the business and not on the drawings. Income tax payments are usually made through the payment of instalments rather than through monthly remittances with the employees' payroll.

Business profit is not considered insurable profit for EI purposes, so no EI is deducted from business profit or drawings. Business profit is considered pensionable profit for CPP and the owner must make CPP remittances on the business profit. This is accomplished through the owner's personal income tax return and is not calculated or remitted as part of the payroll function.

PROBLEM 10-10B

(a)

Apr.	**4**	**Union Dues Payable**	**1,285**	
		Cash		**1,285**
	7	**Disability Insurance Payable**	**1,134**	
		Life Insurance Payable	**756**	
		Cash		**1,890**
	13	**CPP Payable**	**6,907**	
		EI Payable	**3,320**	
		Income Tax Payable	**14,364**	
		Cash		**24,591**
	20	**Workers' Compensation Payable**	**3,780**	
		Cash		**3,780**
	28	**Salaries Expense**	**83,160**	
		CPP Payable		**3,799**
		EI Payable		**1,522**
		Income Tax Payable		**15,800**
		Union Dues Payable		**1,414**
		Disability Insurance Payable		**1,247**
		Salaries Payable		**59,378**
	28	**Salaries Payable**	**59,378**	
		Cash		**59,378**
	28	**Employee Benefits Expense**	**14,246**	
		CPP Payable		**3,799**
		EI Payable ($1,522 × 1.4)		**2,131**
		Workers' Compensation Payable ($83,160 × 5%)		**4,158**
		Vacation Pay Payable ($83,160 × 4%)		**3,326**
		Life Insurance Payable ($83,160 × 1%)		**832**

PROBLEM 10-10B (Continued)

(b)

Canada Pension Plan Payable

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	1	Balance	✓			6,907
	13			6,907		0
	28				3,799	3,799
	28				3,799	7,598

Income Tax Payable

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	1	Balance	✓			14,364
	13			14,364		0
	28				15,800	15,800

Employment Insurance Payable

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	1	Balance	✓			3,320
	13			3,320		0
	28				1,522	1,522
	28				2,131	3,653

Workers' Compensation Payable

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	1	Balance	✓			3,780
	20			3,780		0
	28				4,158	4,158

PROBLEM 10-10B (Continued)

(b) (Continued)

Union Dues Payable

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	1	Balance	✓			1,285
	4			1,285		0
	28				1,414	1,414

Disability Insurance Payable

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	1	Balance	✓			1,134
	7			1,134		0
	28				1,247	1,247

Vacation Pay Payable

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	1	Balance	✓			3,024
	28				3,326	6,350

Life Insurance Payable

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	1	Balance	✓			756
	7			756		0
	28				832	832

Salaries Payable

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	1	Balance	✓			0
	28				59,378	59,378
	28			59,378		0

PROBLEM 10-10B (Continued)

Taking It Further:

The employee earning record is required to determine the employee's total earnings and total deductions for the year. This document is used to prepare the annual T4 slip that is required for the employee's income tax filing requirement. This information is also filed with CRA by the employer. The employee earning record also helps the employer determine when the employee has reached maximum pensionable and insurable earnings for CPP and EI purposes. The earning record is also used for other requirements such as the statement of earnings for EI benefits purposes.

The payroll register contains the current pay information for all employees for a particular pay period. It allows the company to accumulate gross pay, CPP, EI, Income tax, and other amounts withheld from the employees' pay. The summary information can then be used to prepare the journal entry and paycheques for each employee.

PROBLEM 10-11B

(a)

CREATIVE CARPENTRY
(Partial) Balance Sheet
March 31, 2017

Current liabilities	
Bank indebtedness	$ 55,200
Accounts payable	60,000
Warranty liability	12,500
CPP payable	2,300
EI payable	1,750
Vacation pay payable	1,200
Income tax payable	25,000
HST payable	12,250
Interest payable	8,000
Unearned revenue	9,385
Notes payable	30,000
Current portion of mortgage payable	50,000
Total current liabilities	$267,585

(b) **Current assets:**
$184,000 + $120,600 + $500 = $305,100

Current ratio:
$305,100 ÷ $267,585 = 1.14:1

Acid-test ratio:
$184,000 ÷ $267,585 = 0.69:1

PROBLEM 10-11B (Continued)

(c) Creative Carpentry did not show any cash on the trial balance because the bank account is in overdraft which represents a loan to Creative from the bank. Creative is using its line of credit to pay off its current liabilities, until its accounts receivable are collected and can provide cash for use in operations. The current ratio is low, but Creative still has $25,000 available in its line of credit for immediate cash needs.

Taking It Further:

When customers purchase gift cards from Creative Carpentry, no goods or services have yet been delivered by the business to earn the cash obtained. Consequently, the amount received for the gift cards is initially recorded to the Unearned Revenue account. Later on, when the card is redeemed, the Unearned Revenue account is reduced for the value redeemed and revenue is recorded, along with sales taxes if applicable. This fulfills the revenue recognition principle of accounting and provides a fair reporting of when revenue is being earned.

PROBLEM 10-12B

(a)

BCE INC.
(Partial) Balance Sheet
December 31, 2014
(in millions of dollars)

Current liabilities	
Trade payables and other liabilities	$4,398
Current tax liabilities	269
Dividends payable	534
Interest payable	145
Debt due within one year	3,743
Total current liabilities	$9,089

(b) **Current assets:**

$142 + $424 + $333 + $198 + $379 + $3,069 = $4,545

Current ratio:

$4,545 ÷ $9,089 = 0.50:1

Acid-test ratio:

($142 + $424 + $3,069) ÷ $9,089 = 0.40:1

(c) **Current ratio Dec. 31, 2013:**

$5,070 ÷ $7,890 = 0.64:1

Acid-test ratio Dec. 31, 2013: ($335 + $3,043) ÷ $7,890 = 0.43:1

Both the current and acid-test ratios weakened in 2014.

PROBLEM 10-12B (Continued)

Taking It Further:

In assessing liquidity, we should also look at the receivables and inventory turnover ratios to ensure that the current assets are liquid. A slow-down in the turnover ratios of receivables and inventory would trigger an increase in current assets and in the current ratio, but would signal a decrease in the liquidity of receivables and inventory.

We should also look at the difference between the acid-test ratio and the current ratio. The acid-test ratio uses only the liquid current assets (those than can be converted to cash readily). A significant difference between the current ratio and the acid-test ratio may indicate that the company has less short-term liquidity. In the case of BCE Inc. the acid-test and current ratios are relatively close, indicating that the company has a high proportion of liquid current assets.

Other factors to consider include general economic and industry conditions, as well as comparisons with ratios from other companies in the same or related industries.

*PROBLEM 10-13B

(a)

SLOVAK PLUMBING COMPANY
Payroll Register
Week Ended May 12, 2015

		Deductions					
Employee	Gross Pay	CPP	EI	Federal Income Tax	Ontario Income Tax	Total Deductions	Net Pay
D. Quinn	$985.00	$45.43 [1]	$18.52 [5]	$111.45	$56.70	$232.10	$752.90
K. Holub	1,037.00	48.00 [2]	19.50 [6]	113.65	57.90	239.05	797.95
A. Lowhorn	1,080.00	50.13 [3]	20.30 [7]	130.95	65.20	266.58	813.42
I. Kostra	950.00	43.69 [4]	17.86 [8]	87.40	48.70	197.65	752.35
Totals	$4,052.00	$187.25	$76.18	$443.45	$228.50	$935.38	$3,116.62

1. CPP = ($985.00 – [$3,500 ÷ 52]) × 4.95% = $45.43
2. CPP = ($1,037.00 – [$3,500 ÷ 52]) × 4.95% = $48.00
3. CPP = ($1,080.00 – [$3,500 ÷ 52]) × 4.95% = $50.13
4. CPP = ($950.00 – [$3,500 ÷ 52]) × 4.95% = $43.69
5. EI = $985.00 × 1.88% = $18.52
6. EI = $1,037.00 × 1.88% = $19.50
7. EI = $1,080.00 × 1.88% = $20.30
8. EI = $950.00 × 1.88% = $17.86

*PROBLEM 10-13B (Continued)

(b) Semi-monthly Payroll Ended May 15, 2015:

Employee	Annual Salary	Gross Pay	CPP 4.95%	EI 1.88%
B. Dolina	$80,700	$3,362.50	$159.23 [1]	$63.22 [4]
H. Koleno	62,500	2,604.17	121.69 [2]	48.96 [5]
A. Krneta	44,120	1,838.33	83.78 [3]	34.56 [6]

1. CPP = ($3,362.50 – [$3,500 ÷ 24]) × 4.95% = $159.23
2. CPP = ($2,604.17 – [$3,500 ÷ 24]) × 4.95% = $121.69
3. CPP = ($1,838.33 – [$3,500 ÷ 24]) × 4.95% = $83.78

4. EI = $3,362.50 × 1.88% = $63.22
5. EI = $2,604.17 × 1.88% = $48.96
6. EI = $1,838.33 × 1.88% = $34.56

(c) Pay period in which CPP maximum is reached = Maximum annual employee CPP contribution ÷ semi-monthly contribution for the employee (the answer is rounded up since the maximum is reached in the next pay period).

Pay period in which EI maximum is reached = Maximum annual employee EI premium ÷ semi-monthly premium for the employee (the answer is rounded up since the maximum is reached in the next pay period).

B. Dolina:

Pay period in which CPP maximum is reached = $2,479.95 ÷ $159.23 = 15.57; rounded up to pay period 16 (August 31).

Pay period in which EI maximum is reached = $930.60 ÷ $63.22 = 14.72; rounded up to pay period 15 (August 15).

*PROBLEM 10-13B (Continued)

(c) (Continued)

<u>H. Koleno:</u>
Pay period in which CPP maximum is reached = $2,479.95 ÷ $121.69 = 20.38; rounded up to pay period 21 (November 15).

Pay period in which EI maximum is reached = $930.60 ÷ $48.96 = 19.01; rounded up to pay period 20 (October 31).

<u>A. Krneta:</u> Her annual salary is less than the maximum pensionable earnings and the maximum insurance earnings. She will not reach the maximum CPP and EI payments for 2015.

Taking It Further:

The payroll tables are prepared for various pay periods used by different companies, or for different groups of employees of the same company. The amounts deducted for CPP, EI, and income taxes depends on the length of the pay period, thus different tables are necessary.

CUMULATIVE COVERAGE: CHAPTERS 3 TO 10

(a)

1.	**July**	**31**	**Operating Expenses.................**	**50**	
			Accounts Receivable	**650**	
			Cash......................................		**700**
2.		**31**	**Bad Debt Expense.....................**	**1,850**	
			Allowance for Doubtful Accounts		
			($3,850 − $2,000)		**1,850**
3.		**31**	**Interest Receivable ....**	**67**	
			Interest Revenue		
			($10,000 × 8% × 1/12 months)		**67**
4.		**31**	**Cost of Goods Sold...................**	**6,700**	
			Merchandise Inventory		
			($45,900 − $39,200)		**6,700**
5.		**31**	**Operating Expenses.................**	**5,500**	
			Prepaid Expenses.................		**5,500**
6.		**31**	**Depreciation Expense**		
			($5,600 + $5,120)........................	**10,720**	
			Amortization Expense...............	**15,000**	
			Accumulated Depreciation		
			—Building.............................		**5,600**
			Accumulated Depreciation		
			—Equipment		**5,120**
			Accumulated Amortization		
			—Patent................................		**15,000**

Calculations
Building ($155,000 − $15,000) ÷ 25 years = $5,600
Equipment ($25,000 − $12,200) × 40%* = $5,120
***(2 × 1 ÷ 5 years)**
Patent $75,000 ÷ 5 years = $15,000

CUMULATIVE COVERAGE (Continued)

(a) (Continued)

7.	July	31	Interest Expense	621	
			Interest Payable ($124,200 × 6% × 1/12)		621
8.		31	Operating Expenses..................	1,975	
			Warranty Liability..................		1,975

CUMULATIVE COVERAGE (Continued)

(b)

LEBRUN COMPANY
Adjusted Trial Balance
July 31, 2017

	Debit	Credit
Cash	$ 15,850	
Petty cash	200	
Accounts receivable	39,150	
Allowance for doubtful accounts		$ 3,850
Note receivable	10,000	
Interest receivable	67	
Merchandise inventory	39,200	
Prepaid expenses	10,500	
Land	50,000	
Building	155,000	
Accumulated depreciation—building		16,400
Equipment	25,000	
Accumulated depreciation—equipment		17,320
Patent	75,000	
Accumulated amortization—patent		30,000
Accounts payable		78,900
Interest payable		621
Warranty liability		7,975
Note payable		124,200
S. LeBrun, capital		124,700
S. LeBrun, drawings	54,000	
Sales		750,000
Cost of goods sold	456,700	
Bad debt expense	1,850	
Operating expenses	188,745	
Amortization expense	15,000	
Depreciation expense	10,720	
Interest revenue		467
Interest expense	7,451	
Total	$1,154,433	$1,154,433

See the following page for calculations.

CUMULATIVE COVERAGE (Continued)

(b) This format not required but is presented to show calculations.

Account	Unadjusted Trial Balance		Adjustments		Adjusted Trial Balance	
	Dr.	Cr.	Dr	Cr.	Dr.	Cr.
Cash	16,550			(1) 700	15,850	
Petty cash	200				200	
Accounts receivable	38,500		(1) 650		39,150	
Allowance for doubtful accounts		2,000		(2) 1,850		3,850
Note receivable	10,000				10,000	
Interest receivable			(3) 67		67	
Merchandise inventory	45,900			(4) 6,700	39,200	
Prepaid expenses	16,000			(5) 5,500	10,500	
Land	50,000				50,000	
Building	155,000				155,000	
Accumulated depreciation—building		10,800		(6) 5,600		16,400
Equipment	25,000				25,000	
Accumulated depreciation—equipment		12,200		(6) 5,120		17,320
Patent	75,000				75,000	
Accumulated amortization—patent		15,000		(6)15,000		30,000
Accounts payable		78,900				78,900

CUMULATIVE COVERAGE (Continued)

(b) (Continued)

Account	Unadjusted Trial Balance		Adjustments		Adjusted Trial Balance	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Interest payable				(7) 621		621
Warranty liability		6,000		(8) 1,975		7,975
Note payable		124,200				124,200
S. LeBrun, capital		124,700				124,700
S. LeBrun, drawings	54,000				54,000	
Sales		750,000				750,000
Cost of goods sold	450,000		(4) 6,700		456,700	
Bad debt expense			(2) 1,850		1,850	
Operating expenses	181,220		(5) 5,500 (8) 1,975 (1) 50		188,745	
Amortization expense			(6)15,000		15,000	
Depreciation expense			(6)10,720		10,720	
Interest revenue		400		(3) 67		467
Interest expense	6,830		(7) 621		7,451	
Total	1,124,200	1,124,200	43,133	43,133	1,154,433	1,154,433

CUMULATIVE COVERAGE (Continued)

(c)

LEBRUN COMPANY
Income Statement
Year Ended July 31, 2017

Sales revenues		
Sales		$750,000
Cost of goods sold		456,700
Gross profit		293,300
Operating and other expenses		
Operating expenses	$188,745	
Amortization expense	15,000	
Depreciation expense	10,720	
Bad debt expense	1,850	
Total expenses		216,315
Profit from operations		76,985
Other revenues		
Interest revenue	467	
Other expenses		
Interest expense	7,451	6,984
Profit		$70,001

LEBRUN COMPANY
Statement of Owner's Equity
Year Ended July 31, 2017

S. LeBrun, capital, August 1, 2016	$124,700
Add: Profit	70,001
	194,701
Less: Drawings	54,000
S. LeBrun, capital, July 31, 2017	$140,701

CUMULATIVE COVERAGE (Continued)

(c) (Continued)

LEBRUN COMPANY
Balance Sheet
July 31, 2017

Assets

Current assets			
Cash ($15,850 + $200)			$ 16,050
Accounts receivable		$39,150	
Less: Allowance for doubtful accounts		3,850	35,300
Note receivable			10,000
Interest receivable			67
Merchandise inventory			39,200
Prepaid expenses			10,500
Total current assets			111,117
Property, plant, and equipment			
Land		50,000	
Building	$155,000		
Less: Accumulated depreciation	16,400	138,600	
Equipment	25,000		
Less: Accumulated depreciation	17,320	7,680	196,280
Intangible assets			
Patent		75,000	
Less: Accumulated amortization		30,000	45,000
Total assets			$352,397

CUMULATIVE COVERAGE (Continued)

(c) (Continued)

LEBRUN COMPANY
Balance Sheet (Continued)
July 31, 2017

Liabilities and Owner's Equity

Current liabilities	
Accounts payable	$ 78,900
Interest payable	621
Warranty liability	7,975
Current portion of note payable	1,680
Total current liabilities	89,176
Long-term liabilities	
Note payable ($124,200 − $1,680)	122,520
Total liabilities	211,696
Owner's equity	
S. LeBrun, capital	140,701
Total liabilities and owner's equity	$352,397

BYP10-1 FINANCIAL REPORTING PROBLEM

(a) **Total current liabilities at August 31, 2014, were $175,725,000. There was a $7,341,000 increase from the previous year ($175,725,000 – $168,384,000), which was equivalent to a 4.4% increase ($7,341,000 ÷ $168,384,000).**

(b) **The first of two components of total current liabilities on August 31, 2014 was accounts payable and accrued liabilities for the lion's share of the total followed by a modest amount for provisions. Since provisions usually involve estimates, the order used by Corus was liquidity order.**

(c) **Current ratio: 2014**
$217,394,000 ÷ $175,725,000 = 1.24:1

Current ratio: 2013
$310,070,000 ÷ $168,384,000 = 1.84:1

Receivables turnover: 2014
$833,016,000 ÷ [($183,009,000 + $164,302,000) ÷ 2] = 4.8 times

Receivables turnover: 2013
$751,536,000 ÷ [($164,302,000 + $163,345,000) ÷2] = 4.6 times

While the current ratio has deteriorated substantially, showing poor liquidity, the receivables turnover is very similar and slightly better than 2013.

(d) **As footnoted at the bottom of the Consolidated Statement of Financial Position, Corus directs us to the discussion of contingencies in note 27 to its financial statements. A very short paragraph describes litigation matters arising out of the ordinary course and conduct of the business. In management's opinion, the exposure from these matters is considered not material to the financial statements.**

BYP10-2 INTERPRETING FINANCIAL STATEMENTS

Loblaw does not accrue legal proceedings, as they are not expected to have a material impact on the reported results. It also does not accrue the class action proceedings as the company cannot predict the outcome with certainty. These class action proceedings however, if successful, would result in material losses for the company and it is desirable to disclose these items because they would have a substantial negative effect on the company's financial position.

BYP10-3 COLLABORATIVE LEARNING ACTIVITY

All of the material supplementing the collaborative learning activity, including a suggested solution, can be found in the Collaborative Learning section of the Instructor Resource site accompanying this textbook.

BYP10-4 COMMUNICATION ACTIVITY

RE: Accounting for Gift Certificates
TO: Show_Time_Movie_Theatre@gmail.com
FROM: Student@gmail.com
DATE:

In response to your request, I wish to answer your questions regarding the accounting for gift certificates in your theatre.

(a) A liability is recorded when these certificates are sold because there is still a service to be provided by the theatre. The certificates sold are considered unearned revenue until they are redeemed and the service provided. At this point, the theatre's obligation is fulfilled and the amounts can be transferred from a liability account to a revenue account.

The foregoing applies even though the gift certificates may, as you suggest, also generate additional revenues for the theatre.

(b) Since the gift certificates have no expiry date, the theatre will always have a liability for any gift certificates produced and redeemed. However, based upon the experience of your theatre and the theatre industry in general, estimates could be developed for the proportion of gift certificates that will never be redeemed.

An entry would be made to reduce the liability related to unearned revenue, and to record the estimated amount that will never be redeemed as earned (or perhaps as a gain), rather than carrying an unlikely liability on your books in perpetuity.

BYP10-5 "ALL ABOUT YOU" ACTIVITY

(a) Some of the factors to consider in determining if a worker is an employee or self-employed include:

- **the level of control the payer has over the worker;**
- **whether or not the worker provides the tools and equipment;**
- **whether the worker can subcontract the work or hire assistants;**
- **the degree of financial risk taken by the worker;**
- **the degree of responsibility for investment and management held by the worker;**
- **the worker's opportunity for profit; and**
- **any other relevant factors, such as written contracts.**

(b) The amount of cash received each month is the gross pay less the payroll deductions:

Gross pay:		**$3,000.00**
Less:		
CPP Contribution	**$134.06**	
EI Contribution	**54.90**	
Income taxes	**409.35**	**598.31**
Cash received (net pay)		**$2,401.69**

The total amount of cash received in a year:

Annual salary ($3,000 × 12)	**$36,000.00**
Less deductions:	
CPP Contribution ($134.06 × 12)	**1,608.72**
EI Contribution ($54.90 × 12)	**658.80**
Income tax ($409.35 × 12)	**4,912.20**
Cash received (net pay)	**$28,820.28**

BYP 10-5 (Continued)

(c) The total CPP paid in the year will be $134.06 × 12 = $1,608.72. Since the employee's annual salary of $36,000 is less than the 2015 maximum pensionable earnings of $53,600, the employee will not reach the maximum annual contribution.

The total EI paid in the year will be $54.90 × 12 = $658.80. The employee's annual salary is less than the 2015 maximum insurable earnings of $49,500, so the maximum annual employee EI premium will not be reached.

(d) If you are self-employed, you will receive the full $3,000 each month. As a self-employed individual, you will be responsible for making periodic instalmentt payments to CRA for personal income tax. The amount paid in income taxes may differ depending on the expenses that you may be able to claim as a self-employed individual.

If no expenses are claimed, the amount of CPP paid in a year will include the employee and the employer portion as follows: $1,608.72 × 2 = $3,217.44

If no expenses are claimed, and the individual has chosen to pay EI, the amount of EI paid in a year will include only the employee's contribution of $658.80.

BYP 10-5 (Continued)

(e)

Consulting revenue ($3,000 × 12)	**$36,000.00**
Less deductions:	
Income tax ($409.35 × 12)	**4,912.20**
CPP Contribution ($134.06 × 12 × 2)	**3,217.44**
Net pay	**$27,870.36**

(f) **Based on the calculations in (c) and (e), it is preferable to be an employee because the net pay is higher.**

(g) **The answer to (f) may change if there is more than one client. It would be likely that additional expenses, such as travelling to the client's location would be incurred. As a self-employed consultant, these costs could be deductible for income tax purposes and could decrease the amount of taxes paid.**

BYP10-6 Santé Smoothie Saga

1. The cash from the sale of gift certificates must be recorded as unearned revenue. Unearned revenue represents cash payments received in advance of earning the revenue because the service or goods has not been provided to the customer. With a gift certificate, Natalie's business owes a recipe book and all of the supplies needed to create two cups of smoothies. This is the same rationale as deposits received for pre-made smoothies.

2. If the sale of gift certificates is recorded as revenue, revenues on the income statement will be overstated and profit will also be overstated. The revenue is not earned until the recipe book and supplies are provided to customers. The gift certificate does not represent a good or service but rather an entitlement to receive goods in the future when they are redeemed.

If the gift certificates are never used, Natalie will need to use her past experience to determine what her liability is and the likelihood of the older gift certificates being redeemed. She can then recognize revenue on gift certificates unlikely to be redeemed.

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