

Fall 2015 Midterm 2

Product A comes with a two year warranty when purchased by customers. The estimated warranty costs as a percentage of dollar sales are 3% in the year of sale and 5% in the second year after the sale.

The following information relates to sales and warranty expenditures of Product A

Year	Sales	Actual warranty expenditures
Year 1	\$400,000	\$10,000
Year 2	\$500,000	\$35,000

Which of the following is part of the required journal entry in Year 1 based on the above information?

- a. Credit sales \$400,000
- b. Credit cash \$10,000
- c. Debit warranty expense \$32,000
- d. Debit warranty expense \$12,000
- e. All of the above except d)

Fall 2015 Midterm 2

Employees of a company work 160 hours each during March. There are 10 employees and half of them earn \$50 per hour and the other half earns \$48 per hour. On March 31, all 10 employees are paid \$7,500 each for March. How much in wages should be accrued at the end of March for quarterly reporting purposes?

- a. \$75,000
- b. \$3,400
- c. \$78,400
- d. None of the above
- e. An accrual is not required since all employees were paid in March

Fall 2015 Midterm 2

Which of the following statements is/are true?

- a. Bonds Payable are typically transactions between two parties compared to Notes Payable which are typically transactions between many parties
- b. Notes Payable are always classified as long term on the balance sheet
- c. Payments of interest and principal on long term liabilities are always separated
- d. Long term liabilities need to be reported at the present value of all future payments using the market interest rate at the time the liability is incurred
- e. All of the above are false

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Which of the following is/are examples of contingencies?

- a. Note receivable sold with recourse
- b. An amount potentially payable to settle a lawsuit
- c. Salaries payable to top management
- d. Potential expense related to repair or replace products sold under warranty
- e. All of the above except C) are contingencies

Fall 2015 Midterm 2

Deferred revenue is another term for which of the following

- a. Unearned revenue
- b. Trade amounts payable
- c. Sales revenue
- d. Prepayments
- e. A) and C) are both deferred revenue

Winter 2016 Midterm 2

The following information relates to XYZ Corporation for the year ended February 28, 2015.

General Ledger Account	Balance
Bank Over draft	\$101,000
Mortgage Payable (long term portion)	\$537,000
Income taxes payable	\$29,000
Bonuses payable (to be paid March 15, 2015)	\$36,500
Insurance premiums payable	\$11,000

What is XYZ Corporation's total current liabilities for the year ended February 28,2015?

- A) \$177,500
- B) \$76,500
- C) \$101,000
- D) \$137,500
- E) \$714,500

Winter 2016 Midterm 2

Cell My Way Inc. previously accrued a product warranty expense of \$144,000 for defective units. The balance in the Warranty Liability Account currently has a balance of \$140,000. Cell My Way Inc.'s warranty covers both parts and service. Which of the following journal entry is recorded each time a unit is brought in for repair?

- A) Dr. Estimated Liability for Product Warranty. Cr. Product Warranty Expense. B) Dr. Estimated Liability for Product Warranty. Cr. Purchases.
- C) Dr. Estimated Liability for Product Warranty. Cr. Labour.
- D) Dr. Estimated Liability for Product Warranty. Cr. Supplies.
- E) C. or D. may be recorded depending on the circumstance.

Winter 2016 Midterm 2

Jonny Walker purchases his first condominium downtown Toronto by obtaining a \$200,000 mortgage loan from Borrowers Are Us Inc. Jonny Walker agrees to make monthly payments of \$1,200. The interest rate applied to the unpaid balance is 6% per year.

Month	Total Paid	Interest	Principal	Balance
0				\$200,000
1				
2				
3		X		

The above table is the set up of the amortization schedule to be used for this loan. What is the value of the figure in the table where the X is?

- A) \$1,200
- B) \$1,000
- C) \$998
- D) We need the effective interest rate to calculate this amount.
- E) We need the coupon rate to calculate this amount.

Summer 2016 Midterm 2

A contingent liability must be recorded in the financial statements if

- a) it can be reasonably estimated and not probable to occur.
- b) it can be reasonably estimated and probable to occur.
- c) it is probable to occur but cannot be reasonably estimated
- d) the amount of the potential loss is greater than the balance in the cash account.
- e) the chance of this liability is remote and the amount can be reasonably estimated.

Summer 2016 Midterm 2

A firm sells product with a 2-year warranty. Based on industry experience, the firm expects to incur warranty costs equal to 2% of sales. Sales were \$50,000 and \$40,000 in 2014 and 2015 respectively. The firm spent \$700 in 2014 and \$900 in 2015 to repair goods covered by the warranty. On January 1, 2014, the firm's operating warranty liability was \$600. What is the balance in the warranty liability account on January 1, 2016?

- a) \$400
- b) \$600
- c) \$700
- d) \$800
- e) \$900

Summer 2016 Midterm 2

On February 28, 2015, Good-Morning Cereal Company issued 500,000, \$0.10 coupons for its new line of caffeine infused cereal. The coupons expire on August 31, 2015. Based on market research, Good-Morning estimates that 5% of the coupons will be redeemed. By the end of the first month, 4,000 coupons have been redeemed. Good-Morning should make which of the following entries to record the redemption?

- | | | | |
|-----------------------|------------------|-------|-------|
| a) Cash | | 4,000 | |
| | Coupon Liability | | 4,000 |
| b) Coupon Liability | | 400 | |
| | Cash | | 400 |
| c) Cash | | 400 | |
| | Coupon Liability | | 400 |
| d) Promotions Expense | | 400 | |
| | Cash | | 400 |
| e) Promotions Expense | | 400 | |
| | Coupon Liability | | 400 |

Fall 2016 Midterm 2

Which of the following can reasonably be considered a company's current liabilities?

- v. Income taxes payable
 - vi. Deferred performance liabilities
 - vii. Bank overdraft
 - viii. Mortgage payable
- A) i and iii are current liabilities
 - B) ii and iii are current liabilities
 - C) i, ii, and iii are current liabilities
 - D) All of the above are current liabilities
 - E) None of the above answers is correct

Fall 2016 Midterm 2

Ben Albany's Inc. has been paying tax installments to Canada Revenue Agency (CRA) throughout 2015 based on 2014's tax payable amount, in anticipation of 2015 total taxes payable. As of the end of November 2015, a total of \$35,200 has been submitted in tax to the government based on an equal amount submitted for the 11 months (Jan – Nov) for the year ended December 31, 2015. In December no tax installment was made. In early 2016 Ben Albany's tax accountant prepares the tax return and determines that total tax payable is \$45,000. What's the balance of Income Tax Payable account at December 31, 2015?

- A) \$45,000
- B) \$35,200
- C) \$-0-
- D) \$9,800
- E) None of the above

Winter 2017 Midterm 2

Which of the following is true regarding mortgages?

- A) Property is used as collateral against a loan.
- B) Payments of interest and principle are separated like bonds.
- C) A mortgage amortization table reflects increasing interest over time.
- D) A mortgage is initially set up at its future value in the accounting records.
- E) None of the above is true regarding mortgages.

Winter 2017 Midterm 2

Which of the following is an accurate component of the definition of a liability?

- A) The is a probable future sacrifice of resources at a specified or determinable date.
- B) The entity has discretion to avoid the transfer of resources.
- C) The transaction/event giving rise to the entity's obligation has already occurred.
- D) A and B and C are all accurately part of the definition of a liability.
- E) Only A and C.

Winter 2017 Midterm 2

Consider the following list of account titles:

1	Bank Overdraft
2	Wages payable
3	Sales taxes payable (HST,GST)
4	Bonds payable
5	Income taxes payable

Which of the following statements is true regarding the above accounts?

- A) All of the above are classified as current liabilities on a balance sheet.
- B) All of the above are classified as current liabilities on a balance sheet, except 'bank overdraft' which is a long-term liability.
- C) Note disclosure is required for all items, except income taxes payable, which is not a contingent liability.
- D) Both A and C are true.
- E) None of the above is true.

Winter 2017 Midterm 2

ABC Inc. has purchased a piece of high-tech equipment from a local manufacturer, Annoying Ltd. on January 1, 2017. Annoying Ltd. has agreed to allow deferred payment and ABC Inc. has four years to pay the sales price of \$150,000. The interest rate is 10% compounded annually. What is the journal entry that ABC Inc. should record for the acquisition of the piece of equipment in January 1, 2017?

- A) Dr. Machinery \$150,000 and Cr. Note payable \$150,000.
- B) Dr. Machinery \$102,452 and Cr. Note payable \$102,452.
- C) Dr. Machinery 102,450. Dr. Discount \$47,550. Cr. Note payable \$150,000.
- D) No journal entry is required on January 1, 2017.
- E) None of the above.

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Of the following, which usually would not be classified as a current liability?

- A) Bank overdraft
- B) Income taxes payable
- C) Product warranties payable
- D) pension payable
- E) None of the above

Summer 2017 Midterm 2

Batman Incorporated pays its employees on a bi-weekly basis. When wages and salaries are paid, taxes are withheld as well as union dues, which the company submits to the government and the union respectively on the employees' behalf. If Batman Incorporated needs to accrue an amount at year-end because some hours worked have not been paid which of the following is true:

- A) Only wages and salaries are accrued at year end
- B) Wages, salaries, taxes and union dues are accrued at year end
- C) Wages and salaries are accrued, taxes and union dues are accrued but only on the wages portion
- D) The nature of the accrual depends on the company's accrual policy
- E) None of the above