

Financial accounting II Chapter two worksheet 2020

1. Current liabilities
 - A. Are present obligations.
 - B. Arise from past transactions
 - C. Require an outflow of resources
 - D. All of the options are correct
2. All of the following are types of current liabilities **except**:
 - A. Current maturities of long-term debt
 - B. Returnable deposits
 - C. Unearned revenues
 - D. All of the options are current liabilities
3. When retailers collect sales taxes from customers, the taxes collected are recorded as:
 - A. Sales
 - B. Sales Taxes Payable
 - C. Unearned Sales Taxes Revenue
 - D. Sales or Sales Taxes Payable
4. A liability for compensated absences is
 - A. Accrued under all conditions
 - B. Disclosed in a note only
 - C. Accrued only if specific conditions are met
 - D. Never accrued but may be disclosed if desired
5. Which of the following is **not** one of the common types of provisions?
 - A. Compensated absences
 - B. Litigation
 - C. Warrantees
 - D. Environmental damage
6. Which of the following is **not** one of the conditions that must exist for a provision to be recognized?
 - A. There is a present obligation resulting from a past event
 - B. Management must have the intent to settle the obligation
 - C. It is probable that an outflow of resources will be required to settle the obligation
 - D. A reliable estimate can be made of the amount of the obligation
7. Long-term debts maturing currently should be included as a current liability if they are or will be:
 - A. Converted into ordinary shares.
 - B. Due on demand.
 - C. Refinanced with the proceeds of a new debt issue.
 - D. Retired by use of non-current assets
8. A company can exclude a short-term obligation from current liabilities if it:
 - A. Intends to refinance the obligation on a long-term basis.
 - B. Demonstrates an ability to consummate a long-term refinancing.
 - C. Pays off the obligation after the statement of financial position date and subsequently replaces it with long-term debt before the statement of financial position is issued.
 - D. Intends to refinance the obligation on a long-term basis and has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

9. Companies are **not** required to disclose contingent liabilities if the outflow in settlement is:
- A. Remote
 - B. Probable
 - C. Possible but not probable
 - D. Virtually certain
10. Which of the following is an acceptable way to arrive at the best estimate of the expenditure required to settle a provision?
- A. An expected value
 - B. The midpoint in a range
 - C. The most likely outcome
 - D. All of the above
11. A company records the cost associated with an environmental liability in:
- A. An expense account
 - B. A deferred expense account
 - C. The related asset account
 - D. A loss account
12. Current liabilities are usually recorded in the accounting records and reported in financial statements at their:
- A. Carrying value
 - B. Face value
 - C. Maturity value
 - D. Present value
13. Which of the following is **not** an example of a current liability?
- A. Dividends payable
 - B. Bonds Payable
 - C. Unearned revenue
 - D. Accounts Payable

Practice Problem

The following situations relate to Cobble Company.

1. Cobble provides a warranty with all its products it sells. It estimates that it will sell 1,000,000 units of its product for the year ended December 31, 2010, and that its total revenue for the product will be Br.100,000,000. It also estimates that 60% of the product will have no defects, 30% will have major defects, and 10% will have minor defects. The cost of a minor defect is estimated to be Br.5 for each product sold, and the cost for a major defect is Br.15. The company also estimates that the minimum amount of warranty expense will be Br.2,000,000 and the maximum will be Br.10,000,000.
2. Cobble operates profitably in a factory that it has leased and on which it pays monthly rentals. Cobble decides to relocate its operations to another facility. However, the lease on the old facility continues for the next three years. Unfortunately, Cobble cannot cancel the lease nor will it be able to sublet the factory to another party. The expected costs to fulfill the contract are Br.200,000. However, Cobble can cancel the lease by paying a penalty of Br.175,000.
3. Cobble is involved in a tax dispute with the tax authorities. The most likely outcome of this dispute is that Cobble will lose and have to pay Br.400,000. The minimum it will lose is Br.20,000 and the maximum is Br.2,500,000.
4. Cobble has a policy of refunding purchases to dissatisfied customers, even though it is under no obligation to do so. However, it has created a valid expectation with its customers to continue this practice. These refunds can range from 5% of sales to 9% of sales, with any amount in between a reasonable possibility. In 2010, Cobble has Br.80,000,000 of sales subject to possible refund. The average cost of any refund item is Br.12.
5. During December, Cobble made cash sales totaled Br.115,000, which includes the 15% VAT that must be remitted to the tax authority by the fifteenth day of the following month.
6. Cobble Company includes 1 coupon in each box of soap powder that it packs, and 10 coupons are redeemable for a premium (a kitchen utensil). In 2010, Cobble Company purchased 8,800 premiums at Br.0.90 each and sold 120,000 boxes of soap powder at Br.3.30 per box; 44,000 coupons were presented for redemption in 2010. It is estimated that 60% of the coupons will eventually be presented for redemption.

Instructions

Prepare the journal entry to record provisions, if any, for cobble at December 31, 2010.

Listed below are selected transactions of Baileys' Department Store for the current year ending December 31.

1. On December 5, the store received \$500 from the Jackson Players as a deposit to be returned after certain furniture to be used in stage production was returned on January 15.
2. During December, cash sales totaled \$798,000, which includes the 5% sales tax that must be remitted to the state by the fifteenth day of the following month.
3. On December 10, the store purchased for cash three delivery trucks for \$120,000. The trucks were purchased in a state that applies a 5% sales tax.

4. The store determined it will cost \$100,000 to restore the area (considered a land improvement) surrounding one of its store parking lots, when the store is closed in 2 years. Baileys' estimates the fair value of the obligation at December 31 is \$84,000.

5. As a result of uninsured accidents during the year, personal injury suits for \$350,000 and \$60,000 have been filed against the company. It is the judgment of Baileys' legal counsel that an unfavorable outcome is unlikely in the \$60,000 case but that an unfavorable verdict approximating \$250,000 (reliably estimated) will probably result in the \$350,000 case.

6. Baileys' Midwest store division consisting of 12 stores in "Tornado Alley" is uninsurable because of the special risk of injury to customers, employees, and losses due to severe weather and subpar construction standards in older malls. The year 2019 is considered one of the safest (luckiest) in the division's history because no loss due to injury or casualty was suffered. Having suffered an average of three casualties a year during the rest of the past decade (ranging from \$60,000 to \$700,000), management is certain that next year the company will probably not be so fortunate.

Instructions

a. Prepare all the journal entries necessary to record the transactions noted above as they occurred and any adjusting journal entries relative to the transactions that would be required to present fair financial statements at December 31. Date each entry. For simplicity, assume that adjusting entries are recorded only once a year on December 31.

b. For items 5 and 6, indicate what should be reported relative to each situation in the financial statements and accompanying notes. Explain why.

4. Upland Company borrowed \$40,000 on November 1, 2014, by signing a \$40,000, 9%, 3-month note. **Prepare Upland's November 1, 2014, entry; the December 31, 2014, annual adjusting entry; and the February 1, 2015, entry.**

5. Fluffy Cake Mix Company sells boxes of cake mix for £3 per box. In addition, Fluffy Cake Mix offers its customers a large durable mixing bowl in exchange for £1.5 and 10 box tops. The mixing bowl costs Fluffy Cake Mix £2, and the company estimates that customers will redeem 60 percent of the box tops. The premium offer began in June 2015. During 2015, Fluffy Cake Mix purchased 20,000 mixing bowls at £2, sold 300,000 boxes of cake mix for £3 per box, and redeemed 60,000 box tops. **Instructions**

A. Record the sale of the cake mix boxes, the premium expense and premium liability

B. What amount of Premium Inventory as a current asset should Fluffy Cake Mix Company report in the December 31, 2015 statement of financial position?

C. What amount of Premium Liability as a current liability should Fluffy Cake Mix Company report in the December 31, 2015 statement of financial position?

D. What amount of premium expense as a selling expense should Fluffy Cake Mix Company report in the December 31, 2015 income statement

7. Explain the accounting for different types of provisions

8. Identify the criteria used to account for and disclose contingent liabilities and assets

9. What is an onerous contract? Give two examples of an onerous contract.