FOTAMAT

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1

Type of Liabilities:

1-Current liability: debt that the company expects to pay within one year or operating cycle whichever is longer.

Account payable	Note payable	sales tax payable
unearned revenue	accrued liability: -salaries and wages payable -interest ayable	current maturity of long term debt

2-Noncurrent liability: obligations that are expected to be paid after one year.

Bonds	long term notes payable

1-All of the following are reported as current liabilities **except**

a. accounts payable.
b. bonds payable.
c. notes payable.
d. unearned revenues.

2-A current liability is a debt that can reasonably be expected to be paid

a. within one year.
b. between 6 months and 18 months.
c. out of currently recognized revenues.
d. out of cash currently on hand.

3-Liabilities are classified on the statement of financial position as current or

a. deferred.
b. unearned.
c. non-current.
d. accrued.

4-In most companies, current liabilities are paid within

a. one year through the creation of other current liabilities.
b. the operating cycle through the creation of other current liabilities.
c. one year out of current assets.
d. the operating cycle out of current assets.

2

NOTE PAYABLE

Note payable: formal agreement that gives the lender formal proof of the obligation in case legal remedies are needed to collect the debts.

Example: First national bank agrees to lend 100,000$ on march first 2017, If ABC company signs a 100,000$, 12%, four months note. with an interest bearing promissory note, ABC company prepares its financial statement and June 31 and December 31.

Journalize

Date	Account	Dr	Cr

partial financial and income statement on June 31 2017

1-Most companies pay current liabilities

- **a. out of current assets.**
- b. by issuing interest-bearing notes payable.
- c. by issuing stock.
- d. by creating long-term liabilities.

2-The relationship of current assets to current liabilities is used in evaluating a company's

- a. operating cycle.
- b. revenue-producing ability.
- **c. short-term debt paying ability.**
- d. long-range solvency.

-3Which of the following is usually **not** an accrued liability?

- a. Interest payable
- b. Wages payable
- c. Taxes payable
- **d. Notes payable**

4-The entry to record the issuance of an interest-bearing note credits Notes Payable for the note's

- a. maturity value.
- b. market value.
- **c. face value.**
- d. cash realizable value.

5-With an interest-bearing note, the amount of assets received upon issuance of the note is generally

- **a. equal to the note's face value.**
- b. greater than the note's face value.
- c. less than the note's face value.
- d. equal to the note's maturity value.

6-A note payable is in the form of

- a. a contingency that is reasonably likely to occur.
- **b. a written promissory note.**
- c. an oral agreement.
- d. a standing agreement.

7-In what order are current liabilities typically listed on the statement of financial position?

- a. In order of the dates they become due.
- b. In order of increasing liquidity.
- c. In order of decreasing liquidity.
- **d. Notes Payable first followed by Accounts Payable, then in order of magnitude.**

VALUE ADDED TAX (VAT) – SALES TAX PAYABLE

Example: On March 25, cash register reading for X grocery shows sales 10,000$ and sales taxes 600$, sales tax rate is 6%.

Journalize:

Date	Account	Dr	Cr

1-Harrods Company receives £220, of which £20 is for sales tax. The journal entry to record the sale would include a

a. debit to Sales Taxes Payable for £20.
b. credit to Sales Taxes Payable for £20.
c. debit to Sales Revenue for £220.
d. debit to Cash for £200.

2-Franco Company credits its Sales Revenue account for the sales price and the sales tax collected on sales. If the sales tax rate is 9% and the balance in the Sales Revenue account amounted to €465,000, what is the amount of the sales taxes owed to the taxing authority (rounded to the nearest €)?

a. €51,667.
b. €42,660.
c. €41,850.
d. €38,395.

3-Monique's Boutique has total receipts for the month of May of €30,250 including sales taxes. If the sales tax rate is 10%, what amount of sales revenue did the boutique earn in May (rounded to the nearest €)?

a. €33,275.
b. €30,250.
c. €27,500.
d. Cannot be determined from the information given.

4-Sales taxes collected by a retailer are recorded by

a. crediting Sales Tax Revenue.
b. debiting Sales Tax Expense.
c. crediting Sales Taxes Payable.
d. debiting Sales Taxes Payable.

UNEARNED REVENUES

revenues that are received before the company delivers goods or provides services

Example: On 6 of August superior university sells 10,000$ season football tickets at 50$ each for its 5-game home schedule, on 7 of September, there was a game.

Journalize.

Date	Account	Dr	Cr

1-Ski Quarterly typically sells subscriptions on an annual basis, and publishes four times a year in January, April, July and October. The magazine sells 70,000 subscriptions in January at CHF20 each.

If Ski Quarterly publishes a quarterly financial statement at March 31, the adjusting journal entry to recognize revenue will include

a. a debit to Cash for CHF466,667.
b. a debit to Subscription Revenue for CHF466,667
c. a debit to Unearned Subscription Revenue for CHF350,000.
d. a credit to Prepaid Subscriptions for CHF350,000.

2-Unearned Rent Revenue is

a. a contra-account to Rent Revenue.
b. a revenue account.
c. reported as a current liability.
d. debited when rent is received in advance.

3-Any balance in an unearned revenue account is reported as a(n)

a. current liability.
b. long-term debt.
c. revenue.
d. unearned liability.

CURRENT MATURITIES OF LONG TERM DEBT

Example: ABC company issues a five-year interest bearing 25000$ note on January 2017

each January starting 2018, 5000$ the note is due to be paid.

2017	
Current liability	Non-current liability

2018	
Current liability	Non-current liability

1-Hilton Company issued a four-year interest-bearing note payable for $500,000 on January 1, 2013. Each January the company is required to pay $125,000 on the note. How will this note be reported on the December 31, 2014 statement of financial position?

a. Long-term debt, $500,000.
b. Long-term debt, $375,000.
c. Long-term debt, $250,000; Long-term debt due within one year, $125,000.
d. Long-term debt, $375,000; Long-term debt due within one year, $125,000.

2-The current portion of long-term debt should

a. be paid immediately.
b. be reclassified as a current liability.
c. be classified as a non-current liability.
d. not be separated from the long-term portion of debt.

3

P10-1A On January 1, 2017, the ledger of Shumway Ltd. contains the following liability accounts.

Accounts Payable	£52,000
Sales Taxes Payable	5,800
Unearned Service Revenue	13,000

During January, the following selected transactions occurred.

Jan.	5	Sold merchandise for cash totaling £22,470, which includes 7% sales taxes.
	12	Performed services for customers who had made advance payments of £10,000. (Credit Service Revenue.)
	14	Paid revenue department for sales taxes collected in December 2016 (£5,800).
	20	Sold 700 units of a new product on credit at £52 per unit, plus 7% sales tax.
	21	Borrowed £14,000 from DeKalb Bank on a 3-month, 6%, £14,000 note.
	25	Sold merchandise for cash totaling £12,947, which includes 7% sales taxes.

Instructions

1. Journalize the January transactions.
2. Journalize the adjusting entries at January 31 for the outstanding notes payable. (*Hint:* Use one-third of a month for the DeKalb Bank note.)
3. Prepare the current liabilities section of the statement of financial position at January 31, 2017. Assume no change in accounts payable.

1-

Date	Account	Dr	Cr

2-

Date	Account	Dr	Cr

3-

1-Crawford Company has total proceeds (before segregation of sales taxes) from sales of $7,950. If the sales tax is 6%, the amount to be credited to Sales Revenue is:

a. $7,950.
b. $7,473.
c. $8,427.
d. $7,500.

2-A company receives $176, of which $16 is for sales tax. The journal entry to record the sale would include a

a. debit to Sales Tax Expense for $16.
b. credit to Sales Taxes Payable for $16.
c. debit to Sales Revenue for $176.
d. debit to Cash for $160.

3-A company receives $435, of which $35 is for sales tax. The journal entry to record the sale would include a

a debit to Sales Tax Expense for $35.
b. debit to Sales Taxes Payable for $35.
c. debit to Sales Revenue for $435.
d. debit to Cash for $435.

4-A retail store credited the Sales Revenue account for the sales price and the amount of sales tax on sales. If the sales tax rate is 5% and the balance in the Sales Revenue account amounted to ¥420,000,000 what is the amount of the sales taxes owed to the taxing agency?

a. ¥400,000,000
b. ¥420,000,000
c. ¥21,000,000
d. ¥20,000,000

5-Layton Company does **not** ring up sales taxes separately on the cash register. Total receipts for October amounted to $52,500. If the sales tax rate is 5%, what amount must be remitted to the taxing authority for October's sales taxes?

a. $2,500
b. $2,625
c. $125
d. It cannot be determined.

6-The amount of sales tax collected by a retail store when making sales is

a. a miscellaneous revenue for the store.
b. a current liability.
c. not recorded because it is a tax paid by the customer.
d. recorded as an operating expense.

7-Ed's Bookstore has collected $750 in sales taxes during April. If sales taxes must be remitted to the government monthly, what entry will Ed's Bookstore make to show the April remittance?

a. Sales Taxes Payable.. 750

Cash 750

b. Sales Tax Expense 750

Cash 750

c. Sales Tax Expense 750

Sales Taxes Payable 750

d. No entry required.

8-A cash register tape shows cash sales of €3,500 and sales taxes of €210. The journal entry to record this information is

a. Cash.. 3,500

Sales Revenue 3,500

b. Cash.. 3,710

Sales Tax Revenue 210

Sales Revenue 3,500

c. Cash.. 3,500

Sales Tax Expense 210

Sales Revenue ....
3,710

d. Cash 3,710

Sales Revenue.. 3,500

Sales Taxes Payable.. 210

9-Sales taxes collected by a retailer are reported as

a. contingent liabilities.
b. revenues.
c. expenses.
d. current liabilities.

10-Ski Quarterly typically sells subscriptions on an annual basis, and publishes four times a year in January, April, July and October. The magazine sells 70,000 subscriptions in January at CHF20 each.

What entry is made in January to record the sale of the subscriptions?

a.	Accounts Receivable	1,400,000	
	Subscription Revenue		1,400,000
b.	**Cash**	**1,400,000**	
	Unearned Subscription Revenue		**1,400,000**
c.	Accounts Receivable	1,400,000	
	Unearned Subscription Revenue		1,400,000
d.	Prepaid Subscriptions	1,400,000	
	Cash		1,400,000

11-Reliable Insurance Company collected a premium of $24,000 for a 1-year insurance policy on May 1. What amount should Reliable report as a current liability for Unearned Service Revenue at December 31?

a. $0.
b. $8,000.
c. $16,000.
d. $24,000.

5

Reporting and analyzing current liabilities

Reporting Uncertainty

Provision: liability of uncertain timing or amount – estimated liability.

- Litigation expense
- Warranty expense or products gurantees
- Envitomental damages

Recognition of a Provision:

1- A company has a present obligation as a result of a past event
2- It is probable that an outflow of resources will be required to settle the obligation
3- A reliable estimate can be made of the amount of the obligation

1- Common types of provisions are obligations to each of the following except

a. environmental damage.
b. litigation expense.
c. warranty expense.
d. payroll tax expense.

2- A provision is recorded when the likelihood of occurrence is

a. remote.
b. reasonably possible.
c. probable.
d. nil or zero.

3- In accounting for a provision, the term probable is defined as

a. a probability of occurrence greater than 75%.
b. reasonably possible or greater.
c. more likely than not to occur.
d. None of these answer choices are correct.

6

Manufacturing sells 10,000 washers and dryers at an average price of

600 each. The selling price includes a one-year warranty on parts. Denson expects that 500 units (5%) will be defective and that warranty repair costs will average 80 per unit. In 2020, the company honors warranty contracts on 300 units, at a total cost of 24,000.

Denson records those repair costs incurred in 2020 to honor warranty contracts on 2020 sales as shown below.

قيد التصليح بنفس السنة:

قيد Adjusting:

In the following year the company replaces 20 defective units in January 2021, at an average cost of 80 in parts and labor.

1- The accounting for warranty cost is based on the expense recognition principle, which requires that the estimated cost of honoring warranty contracts should be recognized as an expense

a. when the product is brought in for repairs.
b. in the period in which the product was sold.
c. at the end of the warranty period.
d. only if the repairs are expected to be made within one year.

2- The accounting for warranty costs is based on the

a. going concern principle.
b. expense recognition principle.
c. conservatism concept.
d. historical cost principle.

3- Warranty expenses are reported on the income statement as

a. administrative expenses.
b. part of cost of goods sold.
c. contra-revenues.
d. selling expenses.

4- Wang Company sells 1,200 units of a product that has a one-year warranty on parts. The average cost of honoring one warranty contract is HK$60. During the year 60 contracts are honored at a cost of HK$3,600. It is estimated that 120 contracts will be honored in the following year. The adjusting entry at the end of the current year will include a

a. credit to Warranty Liability for HK$7,200.
b. credit to Warranty Liability for HK$10,800.
c. debit to Warranty Expense for HK$3,600.
d. debit to Warranty Expense for HK$10,800.

7

E10.10: Streep Factory provides a 2-year warranty with one of its products which was first sold in 2020. Streep sold $1,000,000 of products subject to the warranty. Streep expects $125,000 of warranty costs over the next 2 years. In 2020, Streep spent $70,000 servicing warranty claims.

Prepare Streep's journal entries in 2020 to record the sales of its products, the costs incurred in honoring the warranties (assume expenditures are for repair costs), and the estimated liability for warranties at December 31, 2020

8

E10.9 - Ting Manufacturing sells its products with a 75-day warranty for defective merchandise. Based on past experience, Ting estimates that 3% of the units sold will become defective during the warranty period. Management estimates that the average cost of replacing or repairing a defective unit is NT$15 (amounts in thousands). The units sold and units defective that occurred during the last 2 months of 2020 are as follows.

Month	Units sold	Units defective prior to December 31
November	30,000	600
December	32,000	400

Instructions:

a. Prepare the journal entries to record the provision for warranties and the costs incurred in honoring 1,000 warranty claims. (Assume actual

b. Determine the estimated warranty liability at December 31 for the units sold in November and December.

c. Give the entry to record the honoring of 500 warranty contracts in January at an average cost of NT$15.

Warranty entries			
Warranty expense Repair parts	XX XX	Honoring warranties لمن نصلح	
Warranty expense Warranty liability	XX XX	Adjusting نهاية الفترة نسجل الي باقي علينا	
اذا بنسجل Provisionكامل قبل ما نسجل الي تصلح صح			
Warranty expense Warranty liability	XX XX	نحطه بالقيمة كاملة	
Warranty liability Repair parts	XX XX	لمن عقبها بنسجل الي صلحناه ما نسجل اكسبنس لان سجلناه كامل بالقيد الي قبله	

1- Landfall Navigation began operations in 2020 and provides a one year warranty on the products it sells. They estimate that 20,000 of the 400,000 units sold in 2020 will be returned for repairs and that these repairs will cost $8 per unit. The cost of repairing 16,000 units presented for service in 2020 was $128,000. Landfall should report

a. warranty expense of $32,000 for 2020.
b. warranty expense of $160,000 for 2020.
c. warranty liability of $160,000 on December 31, 2020.
d. no warranty obligation on December 31, 2020, since this is only a provision.

2- Lulzbot.com sells 6,000 units of its product for €500 each. The selling price includes a one-year warranty on parts. It is expected that 3% of the units will be defective and that repair costs will average €50 per unit. In the year of sale, warranty contracts are honored on 120 units for a total cost of €6,000. What amount should Lulzbot.com accrue on December 31 for estimated warranty costs?

a. €9,000
b. €6,000
c. €3,000
d. €45,000

3- Lulzbot.com sells 6,000 units of its product for €500 each during the year ending December 31, 2020. The selling price includes a one-year warranty on parts. It is expected that 3% of the units will be defective and that repair costs will average €50 per unit. In the year of sale, warranty contracts are honored on 120 units for a total cost of €6,000. What amount will be reported on Lulzbot.com's statement of financial position as Warranty Liability on December 31, 2020?

a. €6,000
b. €9,000
c. €3,000
d. It cannot be determined.

9

Reporting of Current Liabilities

Statement of financial position		
Date Name of the company		
<u>Current liability</u>		
Note payable	XX	
Accounts payable	XX	
Unearned revenues	XX	
Warranty liability	XX	
Long term dept due within one year	XX	
Total current liabilities		**XX**

1- Current liabilities generally appear

a. after non-current liabilities on the statement of financial position.
b. in decreasing order of magnitude on the statement of financial position.
c. in order of maturity on the statement of financial position.
d. in increasing order of magnitude on the statement of financial position.

2- Which of the following statements concerning current liabilities is **incorrect**?

a. Current liabilities include unearned revenues.
b. A company that has more current liabilities than current assets may have liquidity issues.
c. Current liabilities include prepaid expenses.
d. A current liability is a debt that a company expects to pay within one year or the operating cycle whichever is longer.

3- On August 1, 2019, a company borrowed cash and signed a one-year interest-bearing note on which both the face value and interest are payable on August 1, 2020. How will the note payable and the related interest be classified in the December 31, 2019, statement of financial position?

	Note Payable	Interest Payable
a.	Current liability	Non-current liability
b.	Non-current liability	Current liability
c.	**Current liability**	**Current liability**
d.	Non-current liability	Not shown

4- Current maturities of long-term debt

a. require an adjusting entry.
b. are optionally reported on the statement of financial position.
c. can be properly classified during statement of financial position preparation, with no adjusting entry required.
d. are not considered to be current liabilities.

10

ANALYSIS

Liquidity: refers to the ability to pay maturing obligations and meet unexpected needs for cash.

Calculate liquidity by:

Working capital	
Current ratio	

Example: ABC company's current assets is 20856$, and current liability is 16210$, calculate working capital and current ration.

1-The current ratio is

a. current assets plus current liabilities.
b. current assets minus current liabilities.
c. current assets divided by current liabilities.
d. current assets multiplied by current liabilities.

2-Hardy Company has current assets of $120,000, current liabilities of $100,000, non-current assets of $180,000 and non-current liabilities of $90,000. Hardy Company's working capital and its current ratio are

a. $110,000 and 1.20:1.
b. $20,000 and 1.58:1.
c. ($20,000) and 1.20:1.
d. $20,000 and 1.20:1.

3-On October 1, 2013, Pennington Company issued an €80,000, 10%, nine-month interest-bearing note.

If Pennington Company is preparing financial statements at December 31, 2013, the adjusting entry for accrued interest will include a

a. credit to Notes Payable of €2,000.
b. debit to Interest Expense of €2,000
c. credit to Interest Payable of €4,000.
d. debit to Interest Expense of €3,000.

4-Assuming interest was accrued in June 30, 2014, the entry to record the payment of the note on July 1, 2014, will include a

a. debit to Interest Expense of €2,000.
b. credit to Cash of €80,000
c. debit to Interest Payable of €6,000.
d. debit to Notes Payable of €86,000.

5-As interest is recorded on an interest-bearing note, the Interest Expense account is

a. increased; the Notes Payable account is increased.
b. increased; the Notes Payable account is decreased.
c. increased; the Interest Payable account is increased.
d. decreased; the Interest Payable account is increased.

6-When an interest-bearing note matures, the balance in the Notes Payable account is

a. less than the total amount repaid by the borrower.
b. the difference between the maturity value of the note and the face value of the note.
c. equal to the total amount repaid by the borrower.
d. greater than the total amount repaid by the borrower.

7-Interest expense on an interest-bearing note is Admire County Bank agrees to lend Givens Brick Company $500,000 on January 1. Givens Brick Company signs a $500,000, 8%, 9-month note.

The entry made by Givens Brick Company on January 1 to record the proceeds and issuance of the note is

a. Interest Expense 30,000
Cash. 470,000
Notes Payable 500,000

b. Cash 500,000
Notes Payable.. 500,000

c. Cash.. 500,000
Interest Expense 30,000
Notes Payable 530,000

d. Cash.. 500,000
Interest Expense 30,000
Notes Payable 500,000
Interest Payable 30,000

What is the adjusting entry required if Givens Brick Company prepares financial statements on June 30?

a. Interest Expense 20,000
Interest Payable.. 20,000

b. Interest Expense 20,000
Cash 20,000

c. Interest Payable 20,000
Cash ....
20,000

d. Interest Payable 20,000
Interest Expense.. 20,000

What entry will Givens Brick Company make to pay off the note and interest at maturity assuming that interest has been accrued to September 30?

a.	Notes Payable	530,000
	Cash	530,000
b.	**Notes Payable**	**500,000**
	Interest Payable	**30,000**
	Cash	**530,000**
c.	Interest Expense	30,000
	Notes Payable	500,000
	Cash	530,000
d.	Interest Payable	20,000
	Notes Payable	500,000
	Interest Expense	10,000
	Cash	530,000

8-Interest expense on an interest-bearing note is

a. always equal to zero.
b. accrued over the life of the note.
c. only recorded at the time the note is issued.
d. only recorded at maturity when the note is paid.

9-The interest charged on a ¥150,000,000 note payable, at the rate of 8%, on a 90-day note would be

a. ¥12,000,000.
b. ¥6,666,000.
c. ¥3,000,000.
d. ¥1,000,000.

10-The interest charged on a ¥300,000,000 note payable, at the rate of 6%, on a 2-month note would be

a. ¥18,000,000.
b. ¥9,000,000.
c. ¥4,500,000.
d. ¥3,000,000.

11-On September 1, Joe's Painting Service borrows $250,000 from National Bank on a 4-month, $250,000, 6% note.

What entry must Joe's Painting Service make on December 31 before financial statements are prepared?

a. Interest Payable 5,000

Interest Expense.. 5,000

b. Interest Expense 15,000

Interest Payable ....
15,000

c. Interest Expense 5,000

Interest Payable..
5,000

d. Interest Expense 5,000

Notes Payable ....
5,000

The entry by Joe's Painting Service to record payment of the note and accrued interest on January 1 is

a. Notes Payable 255,000

Cash 255,000

b. Notes Payable.. 250,000

Interest Payable.. 5,000

Cash 255,000

c. Notes Payable 250,000

Interest Payable 15,000

Cash 265,000

d. Notes Payable 250,000

Interest Expense 5,000

Cash 255,000

NOTE PAYABLE		
أول ما ناخذ النوت	Cash XX Notes payable XX	
حان وقت دفع الفوايد و دفعت	interest expense XX Cash XX	Amount * % * period
حان وقت دفع الفوايد بس ما دفعت	interest expense XX interest payable XX	Amount * % * period
لمن نصكر النوت و ندفعه و ندفع الفوايد الي عليه	Notes payable XX interest payable XX interest expense XX Cash XX	بالقيمة اذا كنا مسجلينه من قبل ,الحين نصكره فوايد هالفترة قيمة النوت كلها مع الفوايد

Sales tax		
لمن ابيع شغلة و الناس تدفع لي مع الضريبة	Cash XX Sales revenues XX Sales tax payable XX	
نهاية السنة لمن اعطي الحكومة الضريبة الي كنت ماخذتها من الزباين	Sales tax payable XX Cash XX	
If cash is $100,000, tax rate is 10% Revenues = 100,000 / (1+10%) Sales tax payable = cash -revenues		

Unearned revenue		
لمن الزباين يدفعون مقدم	Cash XX Unearned revenue XX	
لمن أقدم لهم الخدمة أو المنتج	Unearned revenue XX Revenues XX	

THE END

Good luck