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Intermediate accounting 16th edition solutions manual - chapter-13

 16th Edition Of Donald E. Keyso, Jerry.. 16th Edition Donald E. Keyso, Jerry.. 14th Edition Donald E. Keyso, Jerry.. 14th Edition Donald E. Keyso, Jerry.. 14th Edition Donald E. Keyso, Jerry.. 1. copyright © 2013 John Wiley & Sons Keiso, Interim Accounting, 15/e, Solution Manual (Instructor Only) Chapter 13-1 Chapter 13 Current Liabilities and Unforeseen Timed Assignment Classification TABLE (BY TOPIC) Topic Questions Exercises for Analyzing The Concept of Simple Exercise Problems 1. Concept of Debt; Definition and Classification of Current Liabilities 1, 2, 3, 4, 6, 8 1, 16 1, 2 1, 2. Pay accounts payable and dividends on bills payable. 7, 11 1, 2, 3 2, 16 1, 2 1, 2 3. Short-term obligations that are expected to be refinancing. 9, 10 4 3, 4 3 4. Deposits and advance payments. 5, 12 5 2 5. Compensated leave and bonuses. 13, 14, 15 8, 9 5, 6, 16 6. Collections for third parties. 16 6, 7 7, 8, 9, 16 3, 4 7. Contingent debt (general) 17, 18, 19, 20, 22 10, 11 13, 16 10, 11, 13 4, 5, 6 8. Guarantees and warranties. 21, 23 13, 14 10, 11, 16 5, 6, 7, 12, 14 6, 7 9.Premiums and awards offered to you. 24, 25 15 12, 15, 16 8, 9, 12, 14 10.Self-insurance, litigation, claims, valuations and asset removal obligations. 26, 27, 28 10, 11, 12 14 2, 10, 11, 13 5, 6 11. Presentation and analysis. 29, 30, 31 17, 18, 19 9 3 2.13-2 Copyright© 2013 John Wiley & Sons, Keeso, Inc., Interim Accounting, 15/e, Solution Manual (Instructor Only) Task Classification Table (by Learning OBJECATIVE) Learning Objective Questions Simple Exercise Problem Concept Analysis 1.Explain the nature, type, and evaluation of current liabilities. 1,2,3,4,7,8 1, 2, 3, 4, 5, 6 1, 2, 7 1, 2 CA13-1 2.Short-term debt classification problems that are expected to be refinancing will be described. 5,6,9,10,11,12 4 3, 4 CA13-2, CA13-3 3.Identify the type of employee-related liabilities. 13,14 7, 8, 9 5, 6, 8, 9 3, 4. 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Simple 5 – 7 E13-8 payroll tax entry. Simple 10– 15 E13-9 payroll tax entry. Simple 15-20 E13-10 warranty. Simple 10-15 E13-11 warranty. Moderate 15-20 E13-12 premium entry. Simple 15-20 E13-13 conting gency. Reasonable 20-30 E13-14 asset disposal obligations. Medium 25-30 E13-15 premium. Impact of moderate 25-35 E13-16 financial statements on debt transactions. Ratio calculation and consideration of medium 30 to 35 E13-17. Simple 15-20 E13-18 ratio calculation and analysis. Simple 20-25 E13-19 transaction ratio calculations and effects. Moderate 15 - 25 P13-1 Flow liability entries and adjustments. Simple 25 – 30 P13-2 debt entry and adjustment. Simple 25 – 35 P13-3 payroll tax entries. Moderate 20 to 30 P13-4 payroll tax entries. Simple 20-25 P13-5 warranty, accrual, and cash basis. Simple 15-20 P13-6 extended warranty. Simple 10-20 P13-7 warranty, accrual, and cash basis. Medium 25-35 P13-8 premium entry. 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(b) Current liabilities are primarily used for the purpose of establishing a reasonably obligated obligation that requires the use of existing resources that can be properly classified as current assets, or the creation of other current liabilities. See paragraphs 210-10-45-5 to 45-12. (c) Reasonably possible means that future events or events are more remotely or less likely to occur. (d) A warranty is a guarantee based on the performance (in terms of functionality, not price) of non-financial assets owned by the guarantor party.May occur in connection with the sale of goods or services. If so, further performance by the seller may be required after the sale is made. CE13-2 FASB ASC 410-20-50 (Asset Decommissioning and Environmental Obligations): 50-1 The operating body must disclose all of the following information regarding asset removal obligations: (a) asset retirement obligations and one of the related long-living assets General Description (b) Fair value of assets that are legally restricted for the purpose of settlement of asset removal obligations (c) If there is a significant change in any of these components during the reporting period, adjust the aggregate integrals for the start and end of asset removal obligations, which separately indicate changes due to the following components: 1. Liabilities incurred in the fiscal year ended February 2, 2019. Liabilities settled in the current period 3. Additional cost 4. Revision of the estimated cash flow. 50-2 If the fair value of asset removal obligations cannot be reasonably estimated, the facts and reasons for such disclosure will be disclosed. 5. Copyright © 2013 John Wiley & Sons, Keeso Corporation, Interim Accounting, 15/e, Solution Manual (instructor use only) 13-5 CE13-3 FASB ASC 450-10-55 (contingency - implementation guidance and illustration): Depreciation 55-2 Depreciation and amortization is not uncertain the final expiration date of the utility of the asset, which is used to allocate the known cost of depreciable assets during the period of use by the entity. Therefore, depreciation of assets is not an unforeseen event, nor is it an issue such as regular repairs, maintenance, or overhauls that are interrelated with depreciation. This topic is not intended to change the depreciation method described in Sections 360-10-35. Estimates used in accruals 55-3 The amount you pay for services you receive (such as ads and utilities) is not an unforeseen result, even though accrued amounts may have been estimated. There is no certain fact that these obligations have occurred. Tax Changes 55-4 The possibility of tax law changes in future years is not uncertainty. For CE13-4 FASB ASC 710-10-25-1 (compensation), employers must be liable for employee compensation for future leave if all of the following conditions are met: (b) The obligations are related to the right to grant or accumulate rights. Vested interests are the right of an employer to make payments even if an employee leaves the company. Therefore, it does not depend on the future service of the employee. Accumulation means that you have earnedThe rights to the compensated leave may then be carryed forward to one or more periods, even if there is a limit to the amount that can be carryed forward. (c) Compensation may be paid. (d) The amount can be reasonably estimated. 6. 13-6 Copyright© 2013 John Wiley & Sons, Kieso Corporation, Interim Accounting, 15/e, Solution Manual (instructor use only) Answers to questions 1. Current liabilities are obligations that require the use of existing resources properly classified as liquid assets or the creation of other liquid liabilities. Long-term debt consists of all liabilities that are not properly classified as current liabilities. 2. The accounting profession may explain to a friend that it has made some financial statements at once, in accordance with the broad or loose definition of liabilities filed by the AICPA in 1953: Something represented by the credit balance that is properly transferred at the time of closing the account book in accordance with accounting rules or principles, unless such a credit balance is, in effect, a negative balance applicable to the asset. Therefore, it is widely used not only for debts and items that constitute debt in the appropriate sense of debt (including for those who are uncertain), but also for credit balances that do not include debtor-creditor relationships. Since your friend may not fully understand the above definition (which may be called so), you may indicate that the more recent definition of liabilities requires payment of assets or services in the future and that the present value of all future payments of the asset constitutes the sum of the person's or company's liabilities. However, accountants quantify or measure only liabilities or future payments that are reasonably determinable at this time. The accountant then accepted the completed transaction as providing the objectivity or basis required for financial recognition. Therefore, liability is considered an obligation to communicate assets or perform services at some point in the future and is based on past or present transactions or events. The formal definition of liabilities presented in Conceptual Statement 6 is as follows: As a result of past transactions and events, there is a possibility of future sacrifice of economic benefits a result of the current obligations of certain entities to transfer assets or provide services to other entities in the future. 3. As a lender, the banker is interested in the priority of his/her claim to the company's assets against other claims. A close examination of the liabilities section and related footnotes isRestrictions on existing contractual obligations are important to all potential creditors. Assets and profitable power are equally important for bankers considering loans. 4. Current liabilities are reasonably obligated requiring the use of existing resources properly classified as current assets, or the creation of other current liabilities. Because current liabilities are by definition tied to current assets, and by definition current assets are tied to operating cycles, liabilities are related to business cycles. 5. Accrued revenue is the responsibility of some services or products to the customer in the future, aling from the current sales. At the time of sale, the customer pays not only for the delivered product, but also for future products and services (e.g., another plane trip, hotel room, or software upgrade). In this case, the company recognizes the revenue from the current product, and a portion of the sales revenue is recorded as liabilities (accrued revenue) to the value of future products or services that it liabilities to the customer. Rather than flying red flags, market analysts have indicated that increased accrued revenue responsibility often provides a positive signal about sales and profitability. As sales grow, accrued revenue accounts should expand. Therefore, increased responsibility may be good news about the company's performance. In contrast, when accrued revenue declines, the company reduces future amounts, which means that sales of new products may have slowed. 6. Accounts payable and receivables generally include interest elements. When you recognize the interest factor (cost as a factor in time and risk), future payments are evaluated at their current value. The present value of the debt represents the debt excluding the debt in the interest factor. 7. Copyright © 2013 John Wiley & Sons, Inc. Keyso, Interim Accounting, 15/e, Solution Manual (Instructor Only) 13-7 Question Chapter 13 (continued) 7.The discount on accounts payable represents the difference between the present value and the face value of the bill, and the face value is greater than the discounted amount. It is treated as an offset (contra) to the face value of the banknote and must be amortized to interest expense over the life of the banknote. The discount represents the interest expense that can be charged in a future period. 8. Liabilities paid on demand (which can be called by creditors) must be classified as current liabilities. Since it is a reasonable expectation to use existing workable funds to meet debt, debt should be classified as current debt. Debts are most likely to be callable by creditors if they violate a debt agreement. Only if the violation can indicate that it is likely to heal (satisfaction)Typically, the grace period given in these contracts can classify debt as non-current. 9. Companies should exclude short-term debt from their current liabilities only if (1) they plan to re-borrow debt over a long period of time, and (2) indicate their ability to consume refinancing. 10. The ability to consume refinancing can be demonstrated (i) by actually refinancing short-term obligations before it is issued after the date of the balance sheet or (ii) by entering into a financing agreement that clearly allows the Company to refinancing debt on a long-term basis on readily determinable terms. 11. Dividends officially approved by the Board of Directors will be credited with reserves for surplus and dividend payments. Dividend unpaid accounts must be classified as liquid liabilities. Accumulated undes declarationed dividends on cumulative preferred shares will not be recorded in the account as liability until declared by the Board of Directors, but such arrears must be disclosed in a footnote to the balance sheet or in the capital shares section. Stock dividends are formally approved by the Board of Directors and declared share dividends are not displayed as liability because they do not require future asset or service expenditures and can be revoked by the Board of Directors before issuance. Still, und distributeable stock dividends are generally reported to the shareholders' equity section because they represent retained earnings in the process of transfer to paid capital. 12. Accrued revenue occurs when a company receives cash or other assets as payment from a customer before carrying (or producing) goods. Accrued revenue is assumed to represent an obligation to refund assets received in the case of customer default, or to perform in accordance with a contract and to earn unlimited rights to the assets received. If accrued revenue is classified as such, the liabilities may contain elements of unrealed gains, but they are ignored on the because the amount of unrealed gains is uncertain and is not usually material to the sum of obligations. Accrued revenue will result from the following activities: (1) the sale of tickets or tokens by the transport company that may be exchanged or used to pay for future fares. (2) Sale of meal vouchers that can be exchanged and used for future meals by restaurants. (3) Sales of gift certificates by retail stores. (4) Sale of season tickets for sporting events and entertainment events (5) Sales of magazine subscriptions. 8. 13-8 copyright© 2013 John Wiley & Sons Keyso, Interim Accounting, 15/e, Solution Manual (forOnly) Question Chapter 13 (continued) 13. The corrected leave will be paid to the employee, with employee leave such as vacation, illness, holiday, etc. 14. If all of the following conditions are met, liability for the cost of the compensated leave must arise: (a) the employer's obligation with regard to the employee's right to be paid for future leave is attributable to the services of the employee already rendered: (b) The obligations are related to the right to grant or accumulate rights. (c) Compensation may be paid. (d) The amount can be reasonably estimated. If the employer meets the conditions (a), (b) and (c) but is not liable for not meeting the condition (d), the fact must be disclosed. 15. Employers must account for the sick pay liability that employees are allowed to use as compensation leave even if they are late and their absence is not due to illness. Employers are allowed to accrue responsibility for sick pay that employees can only claim as a result of an actual illness, but are not required. 16. Employers generally withheld the wages of each employee to cover income tax (withholding tax), distribution of employees' FICA taxes, and other items such as union membership fees and health insurance. In addition, employers must secure amounts to cover employers' share of fica taxes and state and federal unemployment taxes. These latter amounts are recorded as salary expenses and lower the income of the battle. In addition, the amount reserved (shares of both employees and employers) is reported as current liabilities until the money is transferred to the appropriate third party. 17. (a) Contingencies are defined as preexisting conditions, circumstances, or a set of circumstances with uncertainty about possible profits (profit contingencies) or losses (loss contingencies) to companies that are ultimately resolved in the event or failure of one or more future events. (b) Accidental liability is liability a result of a loss contingency. 18. Any fees incurred for incidental liability and expenses must be included in the expenses only if (a) the information available before the issuance of the financial statement indicates that the liability may have occurred on the date of the issue of the financial statement, and (b) the amount of the loss can be reasonably estimated. 19. Determinable liquidity liability is susceptible to accurate measurements as the date of payment, the recipient, and the amount of cash required to waive the obligation are reasonably certain. (1) There is no certain fact that an obligation has occurred and (2) the amount of obligation. Accidental liability is an obligation that relies on the occurrence or non-occurrence of one or more future events to verify the amount paid.The date of payment, or its existence. This is a liability that depends on loss contingencies. Committed current liabilities - accounts payable, accounts payable, current of long-term debt, payments, refundable deposits, sales and use taxes, payroll taxes, unpaid expenses. Contingent liabilities: obligations related to product warranty and product defects, premiums provided to customers, certain pending or threatened lawsuits, certain actual and possible claims and valuations, and certain warranties of other people's debts. 9. Copyright © 2013 John Wiley & Sons, Keiso Corporation, Interim Accounting, 15/e, Solution Manual (Instructor Only) Chapter 13 of the Question 13 (continued) 20.GAAP uses the terms likely and reasonably possible, and remote, to indicate the possibility of future events occurring, resulting in the company's profits or losses. If there is a possibility that a loss occurred on the date of the financial statement, the debt should be recorded (if reasonably estimated). If there is a possibility that a loss occurred on the date of the financial statement, the responsibility must be disclosed through footnotes. Footnotes should (1) disclose the nature of contingencies and (2) disclose statements that estimates or estimates of possible losses or ranges of losses cannot be made. If the occurrence of the loss is far away, it is not necessary to record or disclose the liability (except for the debt guarantee of others disclosed even if the loss is far away). 21. In a cash-based way, during the period during which the seller or manufacturer performs in accordance with the warranty, warranty costs are charged against the cost, no liability for future costs a result of the warranty is recorded, and the sale period does not necessarily bear any valid costs for the outstanding warranty. In the look-over method, the warranty fee is for a deposit at the time of sale or at the time of the production activity. There are two different ways to occur: expense guarantee and sales guarantee method. But either way, we're trying to match the warranty costs with the associated revenue. 22. Under U.S. GAAP, companies may not record provisions for future operating losses. Such provisions do not meet the definition of liability, since the amount is not the result of past transactions (losses have not yet occurred). Therefore, no liability has occurred. Operating losses also reflect common business risks that failed to determine a reasonable estimate of the loss. Using the provisions in this way is one of the examples of revenue management discussed in Chapter 4. By using unforeseen loss issues to reduce income for a good year, companies can smooth their income year after year. 23. CostThe <a0/ approach and the sales guarantee approach are both variations of how you can accrue warranty costs. The expense guarantee approach charges an estimate of future warranty costs to operating expenses in the year of sale or manufacture. The guaranteed sale approach defers a certain percentage of the original sales price until a future time when the actual cost occurs or the warranty expires. 24. Southeast Airlines reward plans are essentially discounted ticket sales. Therefore, full fare tickets must be recorded as accrued transport revenue (liabilities) at the time of sale and recognized as revenue when transport is provided. Half-price tickets should be treated accordingly. In other words, record the discounted price as accrued transportation revenue (debt) at the time of sale and recognize it as revenue when delivery is provided. 25. Accounting for this transaction has been investigated, but no authorized guidelines have been developed to record this transaction. For free ticket awards, AcSEC proposed deferring some of the ticket fares that contribute to the accumulation of 50,000 miles (free ticket award levels) as accrued transportation revenue and recognizing it as revenue when free transportation is offered. The total deferred amount of a free ticket is based on the amount of the airline's revenue, and when mileage is accrued, the postponement occurs and accumulates. 26. Asset removal obligations must be recognized when a company has an existing legal obligation related to the retirement of a long-term asset and the amount can be reasonably estimated. 27. The absence of insurance does not mean that liability has been incurred on the date of the financial statement. Until an event (loss contingency) occurs, there is no possibility that the value of the property or the amount of liability will decrease. Unforeseen circumstances exist when a company is at risk of injuring others or injuring the property of others. Future injuries, damages, or losses resulting from lack of insurance do not need to be recorded or disclosed in the event of no contingencies. Contingencies also exist only in the event of an event that cannot be guaranteed to cause the possibility of loss. Lack of insurance is not itself the basis for recording liability or loss. 10. 13-10 Copyright© 2013 John Wiley & Sons, Keeso, Inc., Interim Accounting, 15/e, Solution Manual (Instructor Only) Question Chapter 13 (continued) 28. The following factors must be considered when deciding whether to record liability for pending litigation: (b) Probability of adverse results. (c) the ability to reasonably estimate the amount of loss; before recording the responsibilities ofLitigation must determine (a) the degree to which a lawsuit is likely to be filed and (b) the probability of adverse outcomes. If both are possible, reasonably estimatable losses, and causes of actions before the date of the financial statement, the debt must be accrued. 29. There are several defendable recommendations for listing current liabilities: (1) in the order of, (2) depending on the amount, (3) in the order of preference for clearing. The author's recent review of pub risch financial statements examines the first listed accounts payable, regardless of the relative amount, and most often follows the accounts payable section of the current section. the current portion of long-term debt. 30. The acid test ratio and the current ratio are both measures of the company's short-term debt psychic capacity. The acid test ratio excludes inventory and upfront costs on the basis that these assets are difficult to liquidate in an emergency. The current ratio and acid test ratio are similar in that both molecules contain cash, short-term investments, and net receivables, and both denominating populations contain current liabilities. 31. (a) Liability for products purchased with credits must be recorded when the title is passed on to the buyer. If the terms of purchase are f.o.b. destinations, the title will be passed on when the item arrives. f.o.b. For shipping points, the title is passed when the vendor makes the shipment. (b) Executive salaries must be recorded at the end of the payment period when they are due. Accruals of outstanding amounts must be recorded in the preparation of financial statements on dates other than the end of the payment period. (c) If approved by a board of directors or person authorized by an officer, a special bonus for the employee must be recorded if the bonus is for a certain period of time and the period ends on the approval date. If the period for which the bonus applies has not ended, but only a portion of it has expired, it is appropriate to record the pro rata portion of the bonus at the time of approval and to accrue additional pro rata amounts at the end of each payment period. (d) Dividends must be recorded when declared by the Board of Directors. (e) It is generally not necessary or appropriate for buyers to make entries to reflect their promises to purchase items that have not been shipped by seller. A normal order is one in which the price is determined at the time of shipment and subject to cancellation by the buyer or seller, does not represent an asset or liabilities to buyer, and does not need to be reflected in books or financial statements. However, accrued losses on purchase agreements resulting from formal purchase agreements with firm pricesThe market price for the balance sheet date is displayed in the liabilities section of the balance sheet. (See Chapter 9 for purchase promises.) 11. Copyright© 2013 John Wiley & Sons, Keeso Corporation, Interim Accounting, 15/e, Solution Manual (Instructor Use Only) 13-11 Solutions to Concise Exercises 13-11 Simple Exercises 13-1 July 1 Purchase 60,000 Accounts Payable... 60,000 cargo -...... 1,200 cash...... 1,200 July 3 accounts payable 6,000 purchase returns and allowances.July 6,000 July 10 Accounts payable 54,000 cash ($54,000 x 98%)...... 52,920 purchase discount...... 1,080 Simple Exercises 13-2 11/1/14 Cash .... 40,000 notes can be paid. 40,000 12/31/14 Interest expense...... 600 interest payments ($40,000 x 9% x 2/12)...... 600 2/1/15 Note Payment...... 40,000 interest payments...... 600 Interest expense...... 300 Cash [($40,000 x 9% x 3/12) + $40,000].40,900 Simple Exercises 13-3 11/1/14 Cash......... Discount of 60,000 yen bill...... 1,350 12.13-12 Copyright© 2013 John Wiley & Sons, Keeso Corporation, Interim Accounting, 15/e, Solution Manual (instructor only) will be paid. 61,350 12/31/14 Interest expense......... 900 discount on note payment ($1,350 x 2/3)...... 900 13.Copyright© 2013 John Wiley & Sons Keyso, Interim Accounting, 15/e, Solution Manual (instructor only) 13-13 BRIEF Exercise 13-3 (continued) 2/1/15 450 discount on interest expense payable............ 450 notes are payable. 61,350 cash...... 61,350 BRIEF Exercise 13-4(a) None of the $500,000 is reported as current liability because both criteria (intent and ability) are met. The full amount is reported as a long-term liability. (b) Repayment of bills of payment requires the following uses:12/31/14 Current assets, entire $500,000 liabilities must be reported as current assets. (This assumes that the bar did not enter into a long-term agreement before issuance.) Simple Exercise 13-5 8/1/14 Cash......... 216,000 accrued sales (12,000 x $18)....... 216,000 12/31/14 Accrued sales......... 90,000 revenue ($216,000 x 5/12 = $90,000).90,000 Easy Exercise 13-6 (a) Accounts receivable...... 31,800 revenue...... 30,000 sales tax payments ($30,000 x 6% = $1,800)...... 1,800 14.13-14 Copyright© 2013 John Wiley & Sons, Keiso Corporation, Interim Accounting, 15/e, Solution Manual (Instructor Use Only) (b) Cash... 20,670 revenue...... 19,500 sales tax ($20,670 ÷ 1.06 = $19,500)....... 1,170 15.Copyright© 2013 John Wiley & Sons Keyso, Interim Treasurer, 15/e, Solution Manual (instructor only) 13-15 BRIEF Exercise 13-7 Salary and wage costs 24,000 FICA taxes paid...... 1,836 Pay withholding tax......... 3,910 insurance premium payments...... 250 cash...... 18,004 Simple exercises 13-8 Salary and wage costs...... 30,000 salary and wage payments (30 x 2 x $500) ...... 30,000 Simple Exercises 13-9 12/31/14 Salary and Wage Costs.... 350,000 salaries and wages are paid .350,000 2/15/15 Salaries and wages are paid...... 350,000 cash...... 350,000 Easy Exercises 13-10 (a) Litigation Loss...... 900,000 litigation responsibilities......... 900,000 (b) entries are not required. No losses occurred due to liability on 12/31/14. Brief Exercise 13-11 Buchanan should record the occurrence of a lawsuit over a patent case because the amount is estimatable and likely. This entry reduces income by $300,000 and Buchanan reports a litigation liability of $300,000. The $100,000 self-insurance allowance will no longer affect your income or debt. 16. 13-162013 © Wylie & Sons Inc. Keyso, Interim Accounting, 15/e, Solution Manual (Instructor Only) BRIEF EXERCISE 13-12 Oil Platform 450,000 Asset Retirement Obligations...... 450,000 Simple Exercises 13-13 2014 Warranty Cost...... 70,000 stock...... 70,000 12/31/14 Warranty Fee...... 400,000 warranty liability...... 400,000 Easy Exercises 13-14 (a) Cash...... 1,980,000 unpaid guaranteed income (20,000 x $99) .... 1,980,000 (b) Warranty cost...... 180,000 in stock .... 180,000 (c) Uns guaranteed revenue...... 330,000 guaranteed earnings ($1,980,000 x 180/1,080*) 330,000 *180,000 + 900,000 Simple Exercises 13-15 Premium Cost...... 96,000 Premium Responsibilities...... 96,000* *UPC code will be sent (30% x 1,200,000). 360,000 UPC codes have already been redeemed. 120,000 future reimbursements....... 240,000 Estimated invoice balance costs (240,000 ÷ 3) X ($1.10 + $0.60 - $0.50)............. $0 96,000 17.Copyright© 2013 John Wiley & Sons Keyso, Interim Treasurer, 15/e, Solution Manual (instructor only) 13-17 18. 13-18 Copyright© 2013 John Wiley & Sons Keyso, Interim Accounting, 15/e, Solution Manual (Instructor Only) Solution Exercise 13-1 (10-15 minutes) (a) Current Responsibilities. (b) Liquidity liability. (c) current or long-term liability as covered by the warranty period; (d) Flow liability. (e) Liquidity liability. (f) Flow liability. (g) current or non-current liability, depending on the relevant time; (h) Flow liability. (i) liquidity liability. (j) Liquidity liability. (k) current or long-term liabilities deducted from face value; (l) Footnote disclosure (not likely or reasonably presumable). (m) Flow responsibility. (n) Liquidity liability. (o) footnote disclosure (p) individual presentations in the current or long-term liability section. Exercise 13-2 (15-20 minutes) (a) September 1 purchase.......... Accounts payable for 50,000 accounts payable......... 50,000 accounts for October 1Payment of 50,000 notes...... 50,000 Cash on October 1... $50,000 discount on accounts payable Payment of 4,000 notes...... 54,000 (b) Interest expense on December 31... 1,000 interest payments...... 1,000 ($50,000 x 8% x 3/12) Interest expense on December 31......... 1,000 19.Copyright© 2013 John Wiley & Sons Keyso, Interim Accounting, 15/e, Solution Manual (instructor only) 13-19 Discount on note payments .1,000 ($4,000) 0 X 3/12) EXERCISE 13-2 (continued) (c) (1) Bill of payment 50,000 interest payments 1,000 $51,000 (2) Banknote payments $54,000 Discount ($4,000 – $1,000) 3,0 00 $51,000 EXERCISE 13-3 (10-12 minutes) Hattie McDaniel Company Partial Balance Sheet December 2014 31: Outstanding bills (Note 1) $250,000 Long-term debt: February 1, 2015 (Note 1) Refinancing of short-term debt. As of December 31, 2014, the company had notes totaling $1,200,000 to pay on February 2, 2015. Or current liabilities: bills (Note 1) long-term debt of $250,000: short-term debt expected to be refinancing (Note 1) 950,000 (same footnote as above) 20. 13-20 Copyright© 2013 John Wiley & Sons, Keeso Corporation, Interim Accounting, 15/e, Solution Manual (Instructor Only) EXERCISE 13-4 (20-25 min.) Kate Holmes Company Partial Balance Sheet December 31, 2014: Bills Outstanding (Note 1) $3,400,000* Long-term debt: Under a financing agreement with 2015(*1) 3,000 Gotham State Bank, the Company may borrow up to 60% of the total receivable at an interest cost 1% above the first rate. The company will mingle in 2019 and regularly replace $3,600,000 short-term $3,600,000 in 2015. Only $3,600,000 of the $600,000 to $4,800,000 and $7,000,000 of the currently liabilities are reclassified as long-term debt. *[$7,000,000- ($6,000,000 x 60%)] 21.Copyright© 2013 John Wiley & Sons, Keeso Corporation, Interim Accounting, 15/e, Solution Manual (instructor only) 13-21 EXERCISE 13-5 (25-30 minutes) (a) 2013 Record expenses and liabilities for vacation salaries and wage expenses.7,200 salaries and wages paid .7,200 (1) Accrue expenses and liabilities for sick wage salaries and wage expenses. 4,320Salaries and wage costs... 4,320 .2,880 (3) Cash... 2,880 2014 Salary and wage expenses to account for vacation expenses and responsibilities......... 7,920 salaries and wages are paid .7,920 (4) 4,752 salaries and wages are paid to account for expenses and responsibilities for sick wage salaries.4,752 (5) Paid salaries and wage expenses to record vacations............. 648 Salaries and wages paid... 6,480 (6) Cash...... 7,128 (7) 144 salaries and wages are paid to record paid salaries and wage expenses... 3,816 (8) Cash...... 3,960 (9) 22.13-22 Copyright © 2013 John Wiley & Sons, Inc. Kieso, Intermediate Accounting, 15/e, Solutions Manual (For Instructor Use Only) EXERCISE 13-5 (Continued) (1) 9 employees X $10.00/hr. X 8 hrs./day X 10 days = $7,200 (2) 9 employees X $10.00/hr. X 8 hrs./day X 6 days = $4,320 (3) 9 employees X $10.00/hr. X 8 hrs./day X 4 days = $2,880 (4) 9 employees X $11.00/hr. X 8 hrs./day X 10 days = $ 7,920 (5) 9 employees X $11.00/hr. X 8 hrs./day X 6 days = $4,752 (6) 9 employees X $10.00/hr. X 8 hrs./day X 9 days = $6,480 (7) 9 employees X $11.00/hr. X 8 hrs./day X 9 days = $7,128 (8) 9 employees X $10.00/hr. X 8 hrs./day X (6–4) days = $1,440 9 employees X $11.00/hr. X 8 hrs./day X (5–2) days = +2,376 = $3,816 (9) 9 employees X $11.00/hr. X 8 hrs./day X5 days = $3,960 Note: Vacation days and sick days are paid at the employee's current wage. Also, if an employee earns a vacation pay-at-pay rate, a consistent pattern of recognition (e.g., first in, first out) can adopt which debt was paid. (b) Year-end Unpaid Liability: 2013 Vacation Wage Payment Money Sick Wage Payment Leave Wage Payable Sick Wage January 1 Balance $0 $7,200 $1,440 + Accrued 7,200 4,320 7,920 4,752 – Paid (0) (2,880) (6,480) (3,816) December. 31 balance $7,200 (1) $1,440 (2) $8,640 (3) $2,376 (4) (1) 9 employees x $10.00/hr. X 8 hours/day x 10 days = $7,200 (2) 9 employees X $10.00/hour. X 8 hours/dayX (6 - 4) days = $1,440 (3) 9 employees X $10.00/hour. X 8 hours/day X (10-9) days = $720 9 employees X $11.00/hour. X 8 hours/day x 10 days = +7,920 $8,640 (4) 9 employees X $11.00/hr. X 8 hours/dayX (6 + 6 – 4 – 5) days $2,376 23.Copyright © 2013 John Wiley & Sons Keeso, Interim Accounting, 15/e, Solution Manual (instructor only) 13-23 EXERCISE 13-6 (25-30 minutes) (a) 2013 To account for vacation expenses and liability salaries and wages............. 7,740 (1) Salaries and wages paid.7,740 .2,880 (2) Cash... 2,880 vacation hours to record vacations, there is no entrance fee, since the vacation day was not used. To account for the costs and responsibilities of the 2014 leave of absence Salary and wage expenses... 8,352 (3) Salaries and wages paid.8,352 Record paid salaries and wage expenses.3,960 (4) Cash...... 3,960 paid salaries and wage expenses to record vacations. 162 Salaries and wages paid.6,966 (5) Cash...... 7,128 (6) (1) 9 employees X $10.75/hr. X 8 hours/day x 10 days = $7,740 (2) 9 employees X $10.00/hour. X 8 hours/day 4 days = $2,880 (3) 9 employees X $11.60/hour. X 8 hours/day x 10 days = $8,352 (4) 9 employees X $11.00/hour. X 8 hours/day 5 days = $3,960 (5) 9 employees X $10.75/hr. X 8 hours/day 9 days = $6,966 (6) 9 employees X $11.00/hr. X 8 hours/day 9 days = $7,128 24.13-24 Copyright© 2013 John Wiley & Sons Keyso, Interim Treasurer, 15/e, Solution Manual (instructor only) EXERCISE 13-6 (continued) (b) Year-end unpaid liability: January 2013. Balance $0 $7,740 + Accrued 7,740 8,352 – Paid (0) (6,966) December 31 Balance $7,740 (1) $9,126 (2) (1) 9 Employee x $10.75/hr. X 8 hours/day x 10 days = $7,740 (2) 9 employees X $10.75/hr. X 8 hours/day x 1 day = $774 9 employees X $11.60/hour. X 8 hours/day x 10 days = 8,352 $9,126 Exercise 13-7 (5-7 minutes) June 30 sales revenue...... 21,900 sales tax payments......... 21,900 Calculation: Sales and sales tax ($233,200 + $153,700) $386,900 tax ($386,900 ÷ 1.06) 365,000 sales tax $21,900 EXERCISE 13-8 (10-15 minutes) salary and wage expenses.... 480,000 withholding taxes paid... 80,000 FICA tax payment*...... 29,900 union dues are paid...... 9,000 caches...... 361,100 * [($480,000- $110,000) x 7.65% = $28,305 $110,000 x 1.45% = $1,595; $28,3 05 + $1,595 = $29,900 25.Copyright ©2013 John Wiley & Sons Keyso, Interim Accounting, 15/e, Solution Manual (instructor only) 13-25 Exercise 13-8 (continued) Payroll tax costs........... 31,500 FICA tax paid...... 29,900 (see previous calculation. FUTA tax is payable. 640 [($480,000 - $400,000) x .8% SUTA tax960 [$80,000X (3.5% – 2.3%)] EXERCISE 13-9 (15–20 minutes) (a) Computationof taxes Factory Wages $120,000 Socialsecurity taxes (FICA) 9,180 (7.65% X $120,000) Federalunemploymenttaxes 320 (.8% X $40,000) State unemploymenttaxes 1,000 (2.5% X $40,000) TotalCost $130,500 Sales Wages $32,000 Socialsecurity taxes (FICA) 1,208* Federalunemploymenttaxes 32 (.8% X $4,000) State unemploymenttaxes 100 (2.5% X $4,000) TotalCost $33,340 *$12,000 X 7.65% = $918; $20,000X 1.45% = $290; $918 + $290 = $1,208 Administrative Wages $36,000 Socialsecurity taxes (FICA) 2,754 (7.65% X $36,000) Federalunemploymenttaxes – 0 – State unemploymenttaxes – 0 – TotalCost $38,754 26. 13-26 Copyright © 2013 John Wiley & Sons, Inc. Kieso, Intermediate Accounting, 15/e, Solutions Manual (For Instructor Use Only) EXERCISE 13-9 (Continued) Schedule Total Factory Sales Administrative Wages $188,000 $120,000 $32,000 $36,000 FICA 13,142 9,180 1,208 2,754 FederalU.T. 352 320 32 – 0 – State U.T. 1,100 1,000 100 – 0 – TotalCost $202,594 $130,500 $33,340 $38,754 (b) Factory Payroll: Payroll and wage costs 120,000 withholding taxes... 16,000 FICA taxes paid...... 9,180 cash...... 94,820 Payroll tax expenses.............. 10,500 FICA tax paid...... 9,180 FUTA taxes paid...... 320 SUTA tax is paid...... 1,000 27.Copyright© 2013 John Wiley & Sons Keyso, Interim Treasurer, 15/e, Solution Manual (instructor use only) 13-27 Exercise 13-9 (continuous) Sales salary: Salary and wage costs 32,000 withholding tax paid...... 7,000 FICA taxes paid...... 1,208 cash...... 23,792 Payroll tax expenses......... 1,340 FICA tax payment 1,208 FUTA tax paid...... 32 SUTA tax is paid...... 100 Managed salary: Salary and wage costs........... 36,000 withholding taxes are paid...... 6,000 FICA taxes paid....... 2,754 cash...... 27,246 Payroll tax expenses......... 2,754 FICA Tax Payment 2,754 Exercise 13-10 (10-15 minutes) (a) Cash (200 x $4,000) .... 800,000 sales800,000 warranty cost...... 17,000 cash...... 17,000 warranty costs ($66,000* – $17,000).... 49,000 warranty responsibilities...... 49,000 * (200 x $330) (b) Cash...... 800,000 sales revenue...... 800,000 28.13-28 Copyright© 2013 John Wiley & Sons Keyso, Interim Accounting, 15/e, Solution Manual (Instructor Only) Warranty Fee 17,000 Cash...... 17,000 29.Copyright© 2013 John Wiley & Sons Keyso, Interim Accounting, 15/e, Solution Manual (instructor only) 13-29 Exercise 13-11 (15-20 minutes) (a) Cash.... 3,000,000 revenue...... 3,000,000 (500 x $6,000) warranty fee...... 20,000 cache...... 20,000 warranty cost...... 100,000 warranty liability...... 100,000 ($120,000 – $20,000) (b) Cash......... 3,000,000 revenue...... 2,850,000 Uns guaranteed warranty revenue .150,000 warranty fee...... 20,000 cache...... 20,000 undes guaranteed earnings...... 25,000 guaranteed earnings...... 25,000 [$150,000 X ($20,000/$120,000)] Exercise 13-12 (15-20 minutes) Insurance stock (8,800 x $.80).7,040 cash... 7,040 caches (110,000 x $3.30)....... 363,000 revenue...... 363,000 Premium Cost...... 3,520 Insurance Premium Stock [(44,000 ÷ 10) X $.80..3,520 Premium Cost...... 1,760* Premium Liability .... 1,760 30.13-30 Copyright © 2013 John Wiley & Sons, Inc.Interim Accounting, 15/e, Solution Manual (Instructor Only)*[110,000 x 60%-44,000]÷10 x $.80 = 1,760 31. Copyright© 2013 John Wiley & Sons Keyso, Interim Accounting, 15/e, Solution Manual (instructor only) 13-31 EXERCISE 13-13 (20-30 minutes) 1.FASB requires that the amount be accrued when an amount within the range of expected loss appears to be a better estimate than any other amount in the range. If no amount in the range has a better estimate than the others, the dollar amount at the lower end of the range is accrued and the dollar amount at the upper end of the range is disclosed. Salt-n-Pepa Inc. therefore reports a debt of $900,000 on December 31, 2014. 2. The loss must be recorded at $5,000,000. Potential insurance recovery is a gain contingency and will not be recorded until it is received. 3. This is a gain contingency because the amount received exceeds the book value of the factory. Gain contingencies are not recorded and are disclosed only when there is a high probability that the gain contingency will become a reality. Exercise 13-14 (25-30 minutes) (a) Plant assets... 600,000 cash...... 600,000 plant assets...... 41,879 Obligation to retire from assets.............. 41,879 (b) Depreciation and amortization... 60,000 Cumulative depreciation - Plant assets .60,000 Depreciation and amortization...... 4,188 Cumulative depreciation – Plant assets .4,188* Interest expense...... 2,513 Obligation to retire from assets.............. 2,513** *$41,879/10.**$41,879 X .06.32. 13-32 Copyright© 2013 John Wiley & Sons, Keeso Corporation, Interim Accounting, 15/e, Solution Manual (instructor use only) EXERCISE 13-14 (continued) (c) Loss of 75,000 of asset retirement obligation ARO settlement... 5,000 caches...... 80,000 Exercises 13-15 (25-35 minutes) 1.Liability for stamp redemption, 12/31/13 $13,000,000 Redemption redeemed in 2014 Cost (6,000,000) 7,000,000 Reimbursement costs redeemed in 2015 (5,200,000 x 80%) 4,160,000 mark Liability for paper reimbursement, 12/31/14 $11,160,000 2.Total coupon issue $800,000 Redemption rate 60% Redeemed 480,000 fees ($) 480,000 x 10%) 48,000 Total Cost $528,000 Total Cost $528,000 Total Payments to Retailers 330,000 Liability for Redemption Coupons3. box 700,000 Reimbursement Rate 70% Total Redeemable 490,000 Coupon Redemptions (490,000 to 250,000) 240,000 Cost ($6.6.00) 50 – $4.00) $2.50 Liability for Un redeemed coupons $600,00333.Copyright © 2013 John Wiley & Sons Inc. 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(instructor only) 13-33 EXERCISE 13-16 (30-35 minutes) # Equity net income of asset liabilities owners 1 I NE NE 2 NE 3 NE I D D 4 I I NE NE 5 NE I D 6 I 7D I D 8 NE I D D 9 NE I D 10 I NE 11 NE I D 12 NE I D 13 NE I D 14 D D NE NE 15 I 16 D NE D D 17 NE D I 18 NE I D D 34.13-34 Copyright© 2013 John Wiley & Sons Keyso, Interim Accounting, 15/e, Solution Manual (Instructor Only) EXERCISE 13-17 (Instructor Only) 15-20 minutes) (a) CurrentRatio = current assets = $210,000 = 2.63 Current liabilities measure the short-term ability to meet the current company's obligations. (b) Acid test rate = cash + short-term investment + net receivables = $115,000 = 1.44 Current debt $80,000 Acid test ratio also measures the short-term capacity of the company to meet the current ming debt. However, it eliminates assets that move slowly, such as inventory and upfront costs. (c) Liabilities = Total Liabilities = $220,000 = 51.16% Total Assets $430,000 This ratio provides creditors with some ideas of a company's ability to withstand losses without compromising creditors' profits. (d) Return on assets = Net income = $25,000 = 5.81% Average total assets $430,000 This ratio measures the return on which a company earns on average total assets and provides one indicator related to a company's profitability. Exercise 13-18 (20-25 minutes) (a) (1) Current ratio = $773,000 = 3.22 times $240,000 (2) Acid test ratio = $52,000 + $198,0 00 + $80,000 = 1.38 times $240,000 35.Copyright © 2013 John Wiley & Sons Co., Ltd. Keyso, Interim Treasurer, 15/e, Solution Manual (Instructor Only) 13-35 Exercise 13-35 18 (13-35 continued) (3) Accounts receivable sales = $1,640,000 ÷ $80,000 + $198,000 = 118,000 = 118,000 = 11.8x (or about 2 every 31 days) (4) Inventory turnover = $800,000÷ $360,000 + $440,000 = 2 hours (or about every 2 183 days) (5) Return on assets = $360,000÷ $1,400,000 + $1,630,000 = 23.76% 2 (6) Profit margin on sales = $360,000÷ $1,640,000 = 21.95% (b) The financial ratio should be evaluated in terms of industry specificity and prevailing business conditions. In this case, the industry and general business situation are unknown, but the company seems to have a relatively strong current position. The main concern from a short-term perspective is clearly the low inventory turnover. The return on assets and return on sales are very good, indicating that the company is adopting assets to its advantage.13-19 (15-25 minutes) (a) (1) $318,000÷ $87,000 = 3.66 times (2) $820,000÷ $200,00+ $170,000 = 4.43 times = 82 days 2 (3) $1,400,000 ÷ $95,000 = 14.74 times = 25 days 36.13-36 Copyright© 2013 John Wiley & Sons Co., Ltd. Keyso, Interim Accounting, 15/e, Solution Manual (Instructor Only) EXERCISE 13-19 (continued) (4) $410,000÷ 52,000 = $7.88 (5) $410,000÷ $1,40 0,000 = 29.3% (6) $410,000 = $410,000÷ = $488,000 = 84.02% (b) (1) No effect on suspicious accounts. (2) Weaken the current ratio due to a decrease in current assets. (3) Improve the current ratio by reducing current assets and liabilities by a similar amount. (4) Does not affect the current ratio. (5) Weaken the current ratio due to an increase in current liabilities. (6) Does not affect the current ratio. 37. Copyright © 2013 John Wiley & Dons, Inc. Kieso, Interim Accounting, 15/e, Solution Manual (Instructor Only) 13-37 Hours and Purpose of Issue 13-1 (Hours 25-30 minutes) Purpose - Presents students with the opportunity to prepare journal entries for various situations related to liability. The situation presented is fundamental, such as shopping, paying into an account, or borrowing money by giving zero interest notes. You also need to prepare for year-end adjustment entries. Problem 13-2 (time 25 -35 minutes) Purpose — Present students with the opportunity to prepare journal items for several different debt-related situations. The circumstances presented include accruals and payments related to sales, use and asset removal obligations. Year-end adjustment input is also required. Question 13-3 (hours 20-30 minutes) Purpose - Present students with the opportunity to prepare journal entries for a four-week salary. Students are required to calculate withheld income taxes, FICA taxes, and state and federal unemployment compensation taxes. In Week 4, you should be aware that only a portion of one employee's salary is subject to unemployment taxes. Issue 13-4 (hours 20 - 25 minutes) Purpose - Provides students with the opportunity to prepare journal entries for monthly salaries. Students are required to calculate withheld income taxes, FICA taxes, and state and federal unemployment compensation taxes. Students should be aware that the unemployment tax does not apply to the three employees because their income exceeds the statutory cap. Issue 13-5 (hours 15 -20 minutes) Purpose - Provides students with the opportunity to prepare journal entries and balance sheet presentations for warranty costs under cash-based and expense guarantee accrual methods. Entry for the sales year and subsequent years is required. This problem highlights the difference between the two methods: accounts and balance sheets. Problem 13-6 (hours 10 -20 minutes)Provide students with basic issues covering the way they are guaranteed to sell. Students must prepare journal entry for the year of sale and subsequent years after warranty costs are incurred. You will also need to present a balance sheet for the sales year and the year that follows. The problem is basic, but it tests students' ability to understand and apply how to guarantee sales. Issue 13-7 (hours 25 -35 minutes) Purpose - Provides students with the opportunity to prepare journal entry for warranty costs in the way of expense guarantee methods and cash standards. You must also indicate appropriate balance sheet disclosures for each method of the sales year. Finally, students should comment on the impact on net income applying each method. This problem highlights the difference between the two methods: accounts and balance sheets. Problem 13-8 (hours 15 -25 minutes) purpose - provides students with the basic problem of accounting for premium offers. Students must prepare journal entry for sales, premium inventory purchases, and coupon redemptions. Students must also prepare year-end adjustment entries that reflect their esti-mated liability for unpaid premium claims. Very basic problem. 38. 13-38 Copyright© 2013 John Wiley & Sons, John Wiley & Sons Co., Ltd., Keyso Corporation, Interim Accounting, 15/e, Solution Manual (Instructor Use Only) Problem 13-9 (Time 30-45 minutes) Purpose - Presents students with slightly more complex issues related to accounting for premium offers. The problem is more complicated in that the redeemed coupons come with cash payments and also incurr the cost of shipping premium items. Students must prepare journal entry for various transactions, such as selling, buying premium inventory, and redeeming coupons for two years. Entry for the second year is more complex because there is responsibility for unpaid claims. Finally, students are required to indicate the amount associated with the premium offer included in the financial statements every two years. This very real problem challenges the ability of students to explain all transactions related to premium offers. Issue 13-10 (hours 25 -30 minutes) Purpose - Present students with issues that determine the appropriate amount and disclosure of accidental losses due to litigation. The student should prepare a journal and footnotes. You should also discuss the responsibilities the company has suffered due to the risk of loss due to lack of insurance coverage. A simple problem dealing with accidental losses. Problem 13-11 (time 35 -45 minutes) purpose - provideStudents with comprehensive problems dealing with accidental loss. Students should prepare journal items for each of the three independent situations. For each situation, students should discuss appropriate disclosures in their financial statements. Pre-submitted situations include litigation, resassaling, and self-insurance status. This issue challenges not only applying the guidelines described in GAAP, but also developing inferences about how the guidelines relate to each situation. Issue 13-12 (hours 20 -30 minutes) Purpose - Provide students with issues calculating warranty costs, estimated warranty liability, premium costs, premium costs, premium inventory, and premium liability. Issue 13-13 (hours 25-35 minutes) Purpose - Presents students with comprehensive issues in determining various liabilities and presenting their findings in writing. The issues are related to contingency reasons, warranties and lawsuits. Problem 13-14 (hours 20 - 25 minutes) Purpose - Presents students with a comprehensive problem when determining the amount of various liabilities. Students are required to calculate their estimated liability for warranties (in the case of independent circumstances) and liability for unpaid premium claims. Journal items are not required. This problem needs to challenge better students. 39. Copyright © 2013 John Wiley & Sons, Keeso Corporation, Interim Accounting, 15/e, Solution Manual (instructor only) 13-39 Solutions to the problem 13-1 (a) Purchase on February 2 ($70,000 x 98%)....... Accounts payable for 68,600 accounts payable...... 68,600 Lost accounts payable 68,600 purchase discount on February 26. 1,400 cache...... 70,000 April 1 truck .... 50,000 cache...... Payment of 4,000 notes...... 46,000 Cash on May 1... 83,000 yen accounts payable discount...... Payment of 9,000 notes...... August 92,000 Retained earnings (dividend) 300,000 dividends will be paid... 300,000 September 10 dividends will be paid. 300,000 cash...... 300,000 (b) December 31 1. No adjustment 2.Interest expense ($46,000 x 12% X)4,140 interest payments...... 4,140 3.Interest expense ($9,000 x 8/12)........... Discount of 6,000 yen bill...... 6,000 40.13-40 Copyright© 2013 John Wiley & Sons, Keyso Co., Ltd., Interim Accounting, 15/e, Solution Manual (instructor use only) 4.No adjustment required 41.Copyright© 2013 John Wiley & Sons Keeso, Interim Accounting, 15/e, Solution Manual (instructor use only) 13-41 Problem 13-2 1. December 5 Cash... 500 customers. 500 2.12/1-31 Cash...... Revenue of 798,000 ($798,000÷1.05). 760,000 sales tax payments ($760,000 x .05)...... 38,000 3.12/10 trucks ($120,000 x 1.05)........... 126,000 cash...... 126,000 4.12.31 Land improvement...... 84,000 asset retirement obligations... 84,000 42.13-42 Copyright© 2013 John Wiley & Sons Keyso, Interim Accounting, 15/e, Solution Manual (Instructor Only) Problem 13-3 Salary 1 Salary and Wage Expense Entry .1,040.00* Withholding Tax Unpaid (10% x $1,040)*. 104.00 FICA tax payment (7.65% x $1,040). 79.56 Union dues payment (2% x $1,040).20.80 cash...... 835.64 *$200 + $150 + $110 + $250 + $330 = $1,040 payroll tax expense...... 94.74 FICA tax payment (7.65% x $1,040).79.56 FUTA tax amount [0.8% X ($200 + $150 + $110)]...... 3.68 SUTA tax outstanding (2.5% x $460).... 11.50 entries (leave) of salary 2 and 3 salaries and wages. 590.00* Salary and wage costs...... 450.00 Withholding tax (10% x 1,040) .. 104.00 FICA tax payment (7.65% x $1,040). 79.56 Union dues payment (2% x $1,040).20.80 cash...... 835.64* ($300 + $220 + $660) ÷ 2 payroll tax expenses.......... 94.74 FICA tax payment (7.65% x $1,040).79.56 FUTA tax payment (0.8% x $460).... 3.68 SUTA tax outstanding (2.5% x $460).... 11.50 entries in salary 4 salaries and wage expenses .1,040.00 withholding tax (10% x 1,040). 104.00 FICAPayable (7.65% x $1,040).79.56 Union dues payment (2% x $1,040).20.80 cash...... 835.64 43.Copyright© 2013 John Wiley & Sons Keyso, Interim Accounting, 15/e, Solution Manual (instructor only) 13-43 Issues 13-3 (continued) Payroll tax costs........... 94.74 FICA tax payment (7.65% x $1,040).... 79.56 FUTA tax payment (0.8% x $460).3.68 SUTA tax outstanding (2.5% x $460).11.50 Monthly payment of payroll liabilities withholding tax ($104.00 x 4)....... 416.00 FICA tax payment ($79.56 x 8)...... 636.48 Union Dues Payment ($20.80 x 4)........... 83.20 Pay FUTA tax ($3.68 x 4)...... 14.72 SUTA tax payment ($11.50 x 4)...... 46.00 Cash...... 1,196.40 44.13-44 Copyright © 2013 John Wiley & Sons, Inc. Kieso, Intermediate Accounting, 15/e, Solutions Manual (For Instructor Use Only) PROBLEM 13-4 (a) Name Earnings to Aug. 31 September Earnings Income Tax Withholding FICA SUTA FUTA B. D. Williams $ 6,800 $ 800 $ 80 $ 61.20 $2.00* $1.60** D. Raye 6,500 700 70 53.55 5.00*** 4.00**** K. Baker 7,600 1,100 110 84.15 – – F. Lopez 13,600 1,900 190 145.35 – – A. Daniels 107,000 13,000 1,300 506.75a – – B. Kingston 112,000 16,000 1,600 312.75b – – Total $253,500 $33,500 $3,350 $1,163.75 $7.00 $5.60 *($7,000 – $6,800) X 1% = $2.00 a ($6,700 X 6.2%) + ($6,300 X 1.45%) = $506.75 **($7,000 – $6,800) X .8% = $1.60 b ($1,700 X 6.2%) + ($14,300 X 1.45%) = $312.75 ***($7,000 – $6,500) X 1% = $5.00 ****($7,000 – $6,500) X .8% = $4.00 Salaries and Wages Expense .... 33,500.00 Unpaid withholding tax......... 3,350.00 FICA tax payment 1,163.75 cash...... 28,986.25 (b) Payroll tax expense......... 1,176.35 FICA tax payment...... 1,163.75 FUTA tax paid...... 5.60 SUTA tax is paid...... 7.00 (c) Withholding tax is paid...... 3,350.00 FICA tax payment 2,327.50 FUTA tax paid...... 5.60 SUTA tax is paid...... 7.00 Cash...... 5,690.10 45.Copyright© 2013 John Wiley & Sons Keyso, Interim Accounting, 15/e, Solution Manual (instructor only) 13-4513-5 (a) Cash (400 x $2,500)....... 1,000,000 revenue .... 1,000,000 (b) Cash (400 x $2,500)....... 1,000,000 revenue .... 1,000,000 warranty cost (400 X [$155 + $185]). ... 136,000 warranty responsibilities......... 136,000 (c) Guarantees for past sales do not disclose liability in a cash-based way for future expenses. (d) Current liability: Warranty liability:...... $68,000 Long-term liabilities: Warranty liability...... $68,000 (e) Warranty costs........... 61,300 inventory...... 21,400 salaries and wages are paid...... 39,900 (f) Warranty Liability...... 61,300 inventory...... 21,400 salaries and wages are paid...... 39,900 46.13-46 Copyright© 2013 John Wiley & Sons Keyso, Interim Accounting, 15/e, Solution Manual (Instructor Only) Issue 13-6 (a) Cash...... 294,300 revenue (300 x $900)............ 270,000 undes guaranteed revenue (270 x $90). 24,300 (b) Current liabilities: Unt guaranteed revenue ($24,300/3). $8,100 (Note: Guaranteed costs assumed to occur equally over 3 years) Long-term liabilities: Unsas guaranteed earnings ($24,300 x 2/3) .... $16,200 (c) $16,200 (c) Unser guaranteed earnings........... 8,100 guaranteed earnings......... 8,100 warranty costs...... 6,000 in stock...... 2,000 salaries and wages are paid...... 4,000 (d) Current Liabilities: Accrued Guaranteed Revenue .... $8,100 Long-Term Liabilities: Untiled Earnings.............. $8,100 47.Copyright© 2013 John Wiley & Sons Keyso, Interim Accounting, 15/e, Solution Manual (Instructor Use Only) 13-47 Issues13-7 (1) Cash........... Revenue of 4,440,000 (600 x $7,400). 4,440,000 (2) Guaranteed cost ([600 x $390]/2). .117,000 in stock ($170 x 600 x 1/2). 51,000 salaries and wage payments ($220 x 600 x 1/2)........... 66,000 (3) Warranty fee...... 117,000Liabilities (600 machines X $390) – $117,000.117,000 (4) warranty liability......... 117,000 in stock...... 51,000 salaries and wages paid .66,000 (b) (1) cash... 4,440,000 revenue...... 4,440,000 (2) Warranty fee...... 117,000 in stock...... 51,000 salaries and wages are paid .66,000 (3) In a cash-based way, the total warranty costs are recorded through entries 2 and 4 recognizing the warranty costs incurred. The 2015 warranty cost is $117,000 on a cash basis. (4) Warranty fee...... 117,000 in stock...... 51,000 salaries and wages paid .66,000 (c) Cash-based: Liability for future expenses incurred under outstanding guarantees is not disclosed on a record or usually cash-based basis. 48. 13-48 Copyright© 2013 John Wiley & Sons Keyso, Interim Accounting, 15/e, Solution Manual (Instructor Use Only) PROBLEM 13-7 (continued) Cost Guarantee Look-over Method: 12/31/14 Current liabilities disclose a guarantee liability of $117,000. (d) In the case of Alvarado, the method of accruing the expense guarantee should appropriately reflect the income attributable to its operations in 2014 and 2015 and incurr such expenses, as the warranty costs are consistent with the proceeds resulting from the sale. In cash-based methods, warranty costs stated in the 2015 income statement are charged for unrelated earnings. Net income for 2014 is overstated and net income for 2015 is undervalued. 49. Copyright© 2013 John Wiley & Sons, Keeso Corporation, Interim Accounting, 15/e, Solution Manual (Instructor Only) 13-49 Problem 13-8 Insurance Premium Inventory 60,000 Cash... 60,000 cash (to record 40,000 dolls at $1.50 each) ...... 1,800,000 revenue...... 1,800,000 (record sales of 480,000 boxes at $3.75 each) Premium cost...... 34,500 premiums in stock...... Record redemption of 34,500 [115,000 coupons]. Calculation: (115,000÷5) x $1.50 = $34,500) Premium Cost......Premium Responsibility......... 23,100 [Record estimated liability for outstanding premium claims on December 31, 2015. Calculation: Total coupons issued in 2015 .480,000 Total estimated redemptions (40%) 192,000 coupons were redeemed in 2015. 115,000 future reimbursements.......... 77,000 Estimated invoice balance costs (77,000÷5) x $1.50 = $23,100 50.13-50 Copyright© 2013 John Wiley & Sons Keyso, Interim Accounting, 15/e, Solution Manual (Instructor Only) Problem 13-9(a) 2014 Premium Inventory 562,500 Cash...... 562,500 cash (to record 250,000 MP3 download purchases at $2.25 each) ...... 868,620 Sales Revenue...... 868,620 (to record sales of 2,895,400 candy bars at 30 cents each) cash [$600,000 - (240,000 x $.50)....... 480,000 Premium Cost...... Stock of 60,000 premiums......... $600,000 (1,200,000÷5) x $2.50, and to record reimbursement for 540,000 [1,200,000 wrappers] 240 mail, 000MP3 download] Premium cost calculation: 240,000 codes @ $2.25 each =...... $540,000 postage -240,000 X $.. 50 =...... 120,000 $660,000 Less: Cash received — 240,000 x $2.50........a premium cost of 600,000 for .MP3 downloads has been issued. 14,500* Premium Responsibilities...... 14,500 (to record estimated liability for unpaid premium claims on 12/31/14) * (290,000 ÷ 5) X ($2.25 + $.50 - $2.50) = $14,50 500 51.Copyright© 2013 John Wiley & Sons Keyso, Interim Accounting, 15/e, Solution Manual (Instructor Use Only) 13-51 Issues 13-9 (continued) 2015 Insurance Premium Inventory 742,500 Cash... 742,500 ($2.25 each to record purchases of 330,000 MP3 downloads) cash...... 823,080 Sales Revenue......Cash ($750,000 – $150,000) (recording sales of 2,743,600 candy bars at 30 cents each)...... 600,000 Premium Responsibilities...... 14,500 Premium Cost...... 60,500 premiums in stock...... 675,000 ($750,000[(1,500,000÷5) x $2.50] and 300,000 codes mailed to record redemptions for 1,500,000 wrappers. Premium cost calculation: 300,000 codes @ $2.25 =...... $675,000 postage — 300,000 @ $.50 = ... 150,000 825,000 Less: Cash received - (1,500,000 ÷5) X $2.50............issued Code's 750,000 premium costs .75,000 less: 12/31/14 outstanding claims claimed in 2014 but redeemed in 2015. 14,500 premium costs billable until 2015. $60,500 Premium Cost...... $17,500* Premium Debt...... 17,500* (350,000 ÷ 5) X ($2.25 + $.50 - $2.50) = $17,500 52.13-52 Copyright© 2013 John Wiley & Sons Co. Keyso, Interim Accounting, 15/e, Solution Manual (instructor only) PROBLEM 13-9 (continued) (b) Amount account 2014 2015 Insurance premium classification stock $22,500* $90,000** Current asset premium liabilities 14,500 17,500 Current liabilities Premium costs 74,500 *** 7 8,000* Selling expenses *$2.25 (250,000 - 240,000) **$2.25 (10,000 + 3 30,000 - 300,000) ***$60,000 + $14,500 *$17,500 53.Copyright© 2013 John Wiley & Sons Keeso, Interim Treasurer, 15/e, Solution Manual (instructor use only) 13-53 PROBLEM 13-10 (a) Causes of litigation occurred before the date of the financial statements, and adverse outcomes are likely and reasonably presumable, so Windsor Airlines is required to report losses and liability in its financial statements on December 31, 2014. Losses and liability may be recorded as follows: Litigation losses ($9,000,000 x 60%) 5,400,000 litigation liability... 5,400,000 Notes on Financial Statements Due to accidents that occurred during 2014, the Company is a defendant in personal injury lawsuits totaling $9,000,000. The company is claiming a year of casualties at $5,400,000 in estimated losses representing the amount that the company's legal adviser estimates will ultimately be awarded. (b) Windsor Airlines does not need to establish liability for the risk of loss due to lack of insurance coverage. GAAP does not require or acknowledge estab-lishmentofa liability for future injury or damage to another person's property, even if the amount of loss is reasonably estimatable. CauseTo record a loss contingency, the loss must occur above or before the balance sheet date. However, the fact that Windsor has self-insurance should be disclosed in the memo. 54. 13-54 Copyright© 2013 John Wiley & Sons, Keeso Corporation, Interim Accounting, 15/e, Solution Manual (Instructor Only) PROBLEM 13-11 (a) 1.Litigation Loss...... 250,000 litigation responsibilities......... 250,000 2.Loss from id...... 1,925,000 allowance [$5,725,000 – (40% x $9,500,000)].1,925,000 3.No entries required. (b) 1. Losses and liability are recorded in the first case because (i) the information is available before the issuance of the financial statement, liability may have occurred on the date of the financial statement, and (ii) the amount is reasonably presumable. In other words, estimating the occurrence of uninsured accidents and unresolved injury lawsuits, as well as the possibility of attorney loss, requires recognition of loss contingencies. 2. Entries that record losses and set allowances due to the threat of resassaling are necessary because the resassaling is imminent as evidenced by the intent already sedable by the transmitted intentions of the foreign government and by the prior settlement of the property already received. In other words, there is sufficient evidence to reasonably estimate the amount of losses that could result from impairment of assets on balance sheet dates. The amount of loss is measured by the amount of the asset's load value (book value) exceeding the expected compensation. When an income occurs, the related assets are written off against the allowance account. In this issue, we set up an valuation account because certain assets were compromised. Valuation accounts were set up instead of liabilities accounts because the net realizability of the affected assets was reduced. Therefore, more preeat presentations will be provided for the purposes of the balance sheet on the realizability of the asset. At this point, it does not seem appropriate to write off the relevant assets, as it is difficult to identify all the relevant assets and the assets have not yet been rescided. 55. Copyright © 2013 John Wiley & Sons, Keyso Corporation, Interim Accounting, 15/e, Solution Manual (Instructor Only) 13-55 Issues 13-11 (continued) 3.Polska's chemical products division is immeasurable due to high risk and has suffered repeated losses in the past, but there is no loss of assets, liabili-relationships, or reasonably estimated amounts. Therefore, this situation does not meet the criteria for recognition of loss contingencies. Also, if there are casualties or if something else happens,No disclosure of loss contingencies is required to indicate impairment of assets before the issuance of financial statements. The absence of insurance itself does not result in impairment of assets or liabilities. Future injuries to others or damage to another person's property, even if the amount is reasonably specified, do not need to record loss or liability. The cause of the loss or lawsuit or claim occurs on or before the balance sheet date, and the amount of loss must be reasonably estimatable to record the faulty nature of the loss. Disclosure is required if one or both of the criteria for loss contingencies are not met and liability has arisen or assets may have been damaged, or if a claim is claimed and may have unfavorable consequences. 56. 13-56 Copyright© 2013 John Wiley & Sons Keyso, Interim Accounting, 15/e, Solution Manual (instructor only) Issue 13-12(a) Sales of musical instruments and audio equipment.20 14-Year X.02 Warranty Cost......$114,000 (b) Estimated Liability for Warranty - 1/1/14......$136,000 2014 Warranty Cost (Requirement 1)........... 114,000 small total...... 250,000 actual warranty costs during 2014...... (164,000) Estimated Liability from Warranty - 12/31/14............$86,000 (c) Coupon Issue (1 Coupon/$1 Sale)...... 1,500,000 estimated reimbursement rates...... 60 Estimated number of coupons redeemed......... 900,000 exchange rates (200 coupons for players)......÷ 200 estimated premium players will be issued. Player net cost $4,500 ($32 - $20)...... 2014 X 12 Premium Cost......$54,000 (d) Premium Player Inventory -1/1/14 .... 37,600 premium players purchased during 2014 (6,500 x $32)........... 208,000 premium players are available. 245,600 premium players exchanged coupons during 2014 (1,200,000/200 x $32). 192,000 Premium Player Inventory: 12/31/14.................$53,600 (e) Estimated Premium Liabilities - 1/1/14......$44,800 2014 Premium Cost3)......................... 54,000-minute total...... 98,800 actual redemptions during 2014 [1,200,000/200 X ($32 - $20)]...... 72,000 Estimated premium liability: 12/31/14...........$26,800 57. Copyright© 2013 John Wiley & Sons Keyso, Interim Accounting, 15/e, Solution Manual (instructor only) 13-57 PROBLEM 13-13 1.Note: Date: Millet Corporation December 31, 2013 2014 Recognizing warranty costs during June of this year, clients be started manufacturing and selling new lines of dishwashers. Sales of 120,000 dishwashers during this period totaled $60,000,000. These dishwashers are sold under a one-year warranty, and clients estimate the warranty cost at $25 per appliance. As of the balance sheet date, the client paid $1,000,000 in warranty costs. No further liability related to the warranty was accepted. Milllay will post a warranty in accrual, so the entire $3,000,000 warranty cost for the year of sale must be assessed. The client must enter the following journal: (a) cash...... 60,000,000 revenue (120,000 x $500).... 60,000,000 (record 120,000 dishwasher sales) (b) Warranty fee...... 1,000,000 in stock...... 1,000,000 (accrue warranty costs) (c) Warranty costs [(120,000 x $25) - $1,000,000] .... 2,000,000 warranty responsibilities......... 2,000,000 (to quote security deposits) 58.13-58 Copyright© 2013 John Wiley & Sons, Keyso Corporation, Interim Accounting, 15/e, Solution Manual (Instructor Only) PROBLEM 13-13 (continued) 2.Notes made: Date: Millet Corporation December 31, 2014 Loss from violation of EPA rules Contingency I contacted my client's attorney via regular attorney's letter and asked for information about any litigation the company may be involved in. Millet's lawyer, Morgan Songeros, informed me of a court case made against Mirai for dumping toxic waste on the Kishwaky River. The lawsuit is pending, but Sonjeros believes the lawsuit will probably be lost. A reasonable estimate of cleanup costs and fines is $2,750,000. The client does not disclose or account for this loss in its financial statements. This loss is likely and reasonably presumable and should be accounted for as an accidental liability. I advised the client to record the following entries in order to account for this responsibility: Litigation2,750,000 litigation responsibilities... 2,750,000 59.Copyright© 2013 John Wiley & Sons Keyso, Interim Accounting, 15/e, Solution Manual (instructor only) 13-59 Issues 13-13 (continued) 3.Notes made: Date: December 31, 2014 In response to my lawyer's letter requesting information about possible litigation related to the Mirai Corporation Loss Contingency Client regarding patent infringement litigation, Morgan Songeroth has let me know that the client is in the midst of a patent infringement lawsuit with Meghan Drabeck over a hydraulic compressor used in some of Meerey's appliances. Millet did not disclose any of this information. Losses are reasonably possible and can be estimated at $5 million and must be disclosed in a note to financial statements. I have advised my client to include the discussion of this pending litigation and the attorney's assessment that the loss is reasonably possible as a footnote in the financial statements. In addition, I advised my client to disclose the estimated amount of this loss contingency. 60. 13-60 Copyright © 2013 John Wiley & Sons, Keyso Corporation, Interim Accounting, 15/e, Solution Manual (instructor only) PROBLEM 13-14 1.Estimated warranty cost: 2013 sales were $800,000 x .10............2014 sales were $1,100,000 X............ 110,000 2015 sales $1,200,000 X .... 120,000 total estimated cost...... Total of 310,000 guaranteed expenditures... 85,700* Balance of responsibilities, 12/31/15...............$224,300 *2013 - $6,500; 2014-$17,200,2015-$62,000. The balance in the liabilities account has a balance of $224,300 at 12/31/15, based on the difference between the estimated cost of the guaranteed amount of three-year sales (total $310,000) and the actual guaranteed expenditure for the same period (total $85,700). 2. Calculating Liability for Outstanding Premium Claims: 2014 Un redeemable coupons ($9,000 – $8,000)....... Estimated 2015 discount of 1,000 X .40............12,000 Total......$13,000 61.2013 John Wiley & Sons Inc. Keyso, Interim Treasurer, 15/e Copyright © with the purpose of solution manual (instructor use only) 13-61 hours and analysis CA 13-1 (hours 20-25 minutes), provides students with the opportunity to define responsibilities, distinguish between current and long-term responsibilities, and explain the responsibilities that have arisen. Students should also explain how debt is valued.A reason why bills of payment are typically reported first in the current liabilities section, indicating items that may constitute Compensation to Employees. CA 13-2 (hours 15-20 minutes) purpose - provides three situations that require the application of judgment about the current or long-term nature of the item. Students should consider when a typical short-term item may not be classified as current. CA 13-3 (hours 30 -40 minutes) purpose - Provides students with a comprehensive case covering refinancing short-term debt. Four situations require students to determine the appropriate classification and disclosure of debts in financial statements. Students should study fasb organization to thoroughly resolve the proposed problems. CA 13-4 (hours 15-20 minutes) purpose - Provides students with the opportunity to comment on the appropriate treatment in the financial statements for incidental losses incurred before the issuance of financial statements after the balance sheet date. In this case, students need to understand the appropriate accounting for unforeseen current affairs in a thorough answer. CA 13-5 (hours 15-20 minutes) purpose - Provides students with the opportunity to specify conditions for recording loss contingencies in their accounts. It is also necessary to indicate appropriate disclosure in financial statements in situations where the amount of loss cannot be reasonably estimated. CA 13-6 (hours 15-20 minutes) Purpose - Provides an opportunity to discuss product warranty costs and the fact that the company is being sued. CA 13-7 (hours 20 - 25 minutes) Purpose - Provides students with the opportunity to consider ethical issues related to estimating nonperforming loans and warranty obligations. Obligation.

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