

1. Known liabilities of estimated amounts are

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- A. ignored. (Record them when paid.)
  - B. reported on the balance sheet.
  - C. reported on the income statement.
  - D. reported only in the notes to the financial statements.
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2. On January 1, 2016, a business borrowed \$18,000 on a five-year, 5% note payable. At December 31, 2016, the business should *record*

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*Review Only*

**Click the icon to see the Worked Solution.**

- A. interest payable of \$900.
  - B. note receivable of \$18,000.
  - C. cash payment of \$18,000.
  - D. nothing. (The note is already on the books.)
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3. A company sells \$180,000 (selling price) of goods and collects sales tax of 8%. What current liability does the sale create?

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*Review Only*

**Click the icon to see the Worked Solution.**

- A. Sales tax payable of \$14,400
  - B. Sales revenue of \$194,400
  - C. Unearned revenue of \$14,400
  - D. None; the company collected cash up front.
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4. Jade Larson Antiques owes \$20,000 on a truck purchased for use in the business. Assume the company makes timely principal payments of \$5,000 each year at December 31 plus interest at 8%. Which of the following is true?

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- A. After the first payment is made, the company owes \$15,000 plus three years' interest.
  - B. After the first payment, \$15,000 would be shown as a long-term liability.
  - C. After the first payment is made, \$5,000 would be shown as the current portion due on the long-term note.
  - D. Just before the last payment is made, \$5,000 will appear as a long-term liability on the balance sheet.
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5. An employee has year-to-date earnings of \$113,900. The employee's gross pay for the next pay period is \$5,000. If the FICA—OASDI is 6.2% and the wage base is \$117,000, how much FICA—OASDI tax will be withheld from the employee's pay? (Answer is rounded to whole dollar.)

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*Review Only*

**Click the icon to see the Worked Solution.**

- A. \$192
- B. \$210
- C. \$310
- D. \$73

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6. The employer is responsible for which of the following payroll taxes?

- A. 6.2% FICA—OASDI tax
- B. 1.45% FICA—Medicare tax
- C. Federal and state unemployment taxes
- D. All of the above

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7. Wells Electric (WE) owed Estimated Warranty Payable of \$1,200 at the end of 2015. During 2016, WE made sales of \$120,000 and expects product warranties to cost the company 3% of the sales. During 2016, WE paid \$2,300 for warranties. What is WE's Estimated Warranty Payable at the end of 2016?

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*Review Only*

**Click the icon to see the Worked Solution.**

- A. \$2,300
- B. \$2,500
- C. \$3,600
- D. \$4,800

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8. Vega Corporation expects to pay a 4% bonus on net income after deducting the bonus. Assume the corporation reports net income of \$130,000 before the calculation of the bonus. The journal entry to record the accrued bonus includes

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*Review Only*

**Click the icon to see the Worked Solution.**

- A. a debit to Employee Bonus Payable, \$5,000.
- B. a debit to Employee Bonus Expense, \$5,200.
- C. a credit to Employee Bonus Payable, \$5,000.
- D. a credit to Cash, \$5,200.

9. Swell Company has a lawsuit pending from a customer claiming damages of \$100,000. Swell's attorney advises that the likelihood the customer will win is remote. GAAP<sup>1</sup> requires at a minimum that this contingent liability be

- A. disclosed in the footnotes.
- B. disclosed in the footnotes, with ranges of potential loss.
- C. recorded as a journal entry, as well as disclosed in the footnotes.
- D. No disclosure is required.

1: Definition

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Generally Accepted Accounting Principles

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10. McDaniel and Associates reported the following amounts on its 2016 income statement:

	<b>Year Ended December 31, 2016</b>	
Net income	\$	60,500
Income tax expense		12,100
Interest expense		5,000

What was McDaniel's times-interest-earned ratio for 2016?

*Review Only*

**Click the icon to see the Worked Solution.**

- A. 12.10
- B. 15.52
- C. 13.10
- D. 14.52

11. The general ledger of Fast Ship at June 30, 2016, the end of the company's fiscal year, includes the following account balances before payroll and adjusting entries.  
<sup>2</sup>(Click the icon to view the account balances.)

The additional data needed to develop the payroll and adjusting entries at June 30 are as follows:

<sup>3</sup>(Click the icon to view the additional information.)

<sup>4</sup>(Click the icon to view payroll tax rate information.)

**Requirements**

- Using the T-accounts opened for you, insert the unadjusted June 30 balances.
- Journalize and post the June 30 payroll and adjusting entries to the accounts. Identify each adjusting entry by letter.
- Prepare the current liabilities section of the balance sheet at June 30, 2016.

*Review Only*

**Click the icon to see the Worked Solution.**

**Requirements 1 and 2.** Using the T-accounts opened for you, insert the unadjusted June 30 balances. Journalize and post the June 30 adjusting entries to the accounts. Identify each adjusting entry by letter.

We will start with Requirement 2, journalizing the journal entries, to assist us in posting to the T-accounts. (Record debits first, then credits. Select the explanation on the last line of the journal entry table.)

- a. The long-term debt is payable in annual installments of \$66,000, with the next installment due on July 31. On that date, Fast Ship will also pay one year's interest at 9%. Interest was paid on July 31 of the preceding year. Make the adjusting entry to accrue interest expense at year-end.

Date	Accounts and Explanation	Debit	Credit
(a)	(1)		
	(2)		
	(3)		
	(4)		
	(5)		

- b. Gross unpaid salaries for the last payroll of the fiscal year were \$5,000. Assume that employee income taxes withheld are \$920 and that all earnings are subject to OASDI. (Round amounts to the nearest dollar.)

Date	Accounts and Explanation	Debit	Credit
(b)	(6)		
	(7)		
	(8)		
	(9)		
	(10)		
	(11)		

- c. Record the associated employer taxes payable for the last payroll of the fiscal year, \$5,000. Assume that the earnings are not subject to unemployment. (Round amounts to the nearest dollar.)

Date	Accounts and Explanation	Debit	Credit
(c)	(12)		
	(13)		
	(14)		
	(15)		
	(16)		

d. On February 1, the company collected one year's rent of \$7,200 in advance.

Date	Accounts and Explanation	Debit	Credit
(d)	(17)		
	(18)		
	(19)		
	(20)		
	(21)		

The selected T-accounts have been opened for you. Insert the unadjusted June 30 balances, using a "Beg. Bal." posting reference to show the unadjusted balance of each account. If an account has a zero unadjusted balance, enter a "0" on the normal balance side of the account. Post the adjusting entries to the T-accounts using the corresponding letters (a) through (d) as posting references. Use a "Bal." posting reference to show the ending balance of each account.

<b>Accounts Payable</b>				<b>FICA-OASDI Taxes Payable</b>			
(22)		(23)		(24)		(25)	
(26)		(27)		(28)		(29)	
(30)		(31)		(32)		(33)	
(34)		(35)		(36)		(37)	
<b>Interest Payable</b>				<b>FICA-Medicare Taxes Payable</b>			
(38)		(39)		(40)		(41)	
(42)		(43)		(44)		(45)	
(46)		(47)		(48)		(49)	
(50)		(51)		(52)		(53)	
<b>Salaries Payable</b>				<b>Unearned Rent Revenue</b>			
(54)		(55)		(56)		(57)	
(58)		(59)		(60)		(61)	
(62)		(63)		(64)		(65)	
<b>Employee Income Taxes Payable</b>				<b>Long-Term Notes Payable</b>			
(66)		(67)		(68)		(69)	
(70)		(71)		(72)		(73)	
(74)		(75)		(76)		(77)	

**Requirement 3.** Prepare the current liabilities section of the balance sheet at June 30, 2016.

**Fast Ship**  
**Balance Sheet (partial)**  
**June 30, 2016**

(78)	
(79)	
(80)	
(81)	
(82)	
(83)	
(84)	
(85)	
(86)	
(87)	

2: Data Table

Accounts Payable	\$ 112,000
Interest Payable	0
Salaries Payable	0
Employee Income Taxes Payable	0
FICA-OASDI Taxes Payable	0
FICA-Medicare Taxes Payable	0
Federal Unemployment Taxes Payable	0
State Unemployment Taxes Payable	0
Unearned Rent Revenue	7,200
Long-Term Notes Payable	330,000

3: More Info

- a. The long-term debt is payable in annual installments of \$66,000, with the next installment due on July 31. On that date, Fast Ship will also pay one year's interest at 9%. Interest was paid on July 31 of the preceding year. Make the adjusting entry to accrue interest expense at year-end.
- b. Gross unpaid salaries for the last payroll of the fiscal year were \$5,000. Assume that employee income taxes withheld are \$920 and that all earnings are subject to OASDI.
- c. Record the associated employer taxes payable for the last payroll of the fiscal year, \$5,000. Assume that the earnings are not subject to unemployment.
- d. On February 1, the company collected one year's rent of \$7,200 in advance.

4: More Info

For all payroll calculations, use the following tax rates and round amounts to the nearest cent:

- Employee: OASDI: 6.2% on first \$117,000 earned; Medicare: 1.45% up to \$200,000, 2.35% on earnings above \$200,000.
- Employer: OASDI: 6.2% on first \$117,000 earned; Medicare: 1.45% on all earnings.

12. Len Wilson is general manager of Valuepoint Salons. During 2016, Wilson worked for the company all year at a \$12,400 monthly salary. He also earned a year-end bonus equal to 20% of his annual salary. Wilson's federal income tax withheld during 2016 was \$2,480 per month, plus \$4,464 on his bonus check. State income tax withheld came to \$160 per month, plus \$70 on the bonus. FICA tax was withheld on the annual earnings. Wilson authorized the following payroll deductions: Charity Fund contribution of 2% of total earnings and life insurance of \$5 per month.

Valuepoint incurred payroll tax expense on Wilson for FICA tax. The company also paid state unemployment tax and federal unemployment tax.

<sup>5</sup>(Click the icon to view payroll tax rate information.)

Read the [requirements](#)<sup>6</sup>.

*Review Only*

**Click the icon to see the Worked Solution.**

**Requirement 1.** Compute Wilson's gross pay, payroll deductions, and net pay for the full year 2016. Round all amounts to the nearest dollar.

Begin by computing Wilson's gross pay for the year. (Round all amounts to the nearest dollar.)

Gross pay:

(1)	
(2)	
Gross Pay	

Now compute Wilson's payroll deductions and net pay for the year. (Round all amounts to the nearest dollar.)

Net pay:

(3)	
Withholding deductions:	
(4)	
(5)	
(6)	
(7)	
(8)	
(9)	
(10)	
Net (take-home) pay	

**Requirement 2.** Compute Valuepoint's total 2016 payroll expense for Wilson. (Round all amounts to the nearest dollar.)

(11)	
Employer Payroll Taxes:	
(12)	
(13)	
(14)	
(15)	
Total Employer Payroll Tax	
Total Payroll Expense	

**Requirement 3.** Make the journal entry to record Valuepoint's expense for Wilson's total earnings for the year, his payroll deductions, and net pay. Debit Salaries Expense and Bonus Expense as appropriate. Credit liability accounts for the payroll deductions and Cash for net pay. An explanation is not required. (Record debits first, then credits. Exclude explanations from journal entries.)

Date	Accounts and Explanation	Debit	Credit
2016	(16)		
	(17)		
	(18)		
	(19)		
	(20)		
	(21)		
	(22)		
	(23)		
	(24)		

**Requirement 4.** Make the journal entry to record the accrual of Valuepoint's payroll tax expense for Wilson's total earnings. (Record debits first, then credits. Exclude explanations from journal entries.)

Date	Accounts and Explanation	Debit	Credit
2016	(25)		
	(26)		
	(27)		
	(28)		
	(29)		

5: More Info

For all payroll calculations, use the following tax rates and round amounts to the nearest cent:

Employee: OASDI: 6.2% on first \$117,000 earned; Medicare: 1.45% up to \$200,000, 2.35% on earnings above \$200,000.

Employer: OASDI: 6.2% on first \$117,000 earned; Medicare: 1.45% on all earnings; FUTA: 0.6% on first \$7,000 earned; SUTA: 5.4% on first \$7,000 earned.

6: Requirements



1. Compute Wilson's gross pay, payroll deductions, and net pay for the full year 2016. Round all amounts to the nearest dollar.
2. Compute Valuepoint's total 2016 payroll expense for Wilson.
3. Make the journal entry to record Valuepoint's expense for Wilson's total earnings for the year, his payroll deductions, and net pay. Debit Salaries Expense and Bonus Expense as appropriate. Credit liability accounts for the payroll deductions and Cash for net pay. An explanation is not required.
4. Make the journal entry to record the accrual of Valuepoint's payroll tax expense for Wilson's total earnings.

1. B. reported on the balance sheet.

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2. A. interest payable of \$900.

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3. A. Sales tax payable of \$14,400

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4. C. After the first payment is made, \$5,000 would be shown as the current portion due on the long-term note.

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5. A. \$192

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6. D. All of the above

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7. B. \$2,500

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8. C. a credit to Employee Bonus Payable, \$5,000.

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9. D. No disclosure is required.

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10. B. 15.52

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11. Date	Accounts and Explanation	Debit	Credit
(a)	Interest Expense	27,225	
	Interest Payable		27,225
	<i>To accrue interest expense at year-end.</i>		
Date	Accounts and Explanation	Debit	Credit
(b)	Salaries Expense	5,000	
	Salaries Payable		3,697
	FICA-OASDI Taxes Payable		310
	FICA-Medicare Taxes Payable		73
	Employee Income Taxes Payable		920
	<i>To record salaries expense and payroll withholdings.</i>		
Date	Accounts and Explanation	Debit	Credit
(c)	Payroll Tax Expense	383	
	FICA-OASDI Taxes Payable		310
	FICA-Medicare Taxes Payable		73
	<i>To record employer's payroll tax expense.</i>		
Date	Accounts and Explanation	Debit	Credit
(d)	Unearned Rent Revenue	3,000	
	Rent Revenue		3,000
	<i>To record rent revenue earned at year-end.</i>		

Accounts Payable		FICA-OASDI Taxes Payable	
	112,000 Beg. Bal.		0 Beg. Bal.
			310 (b)
			310 (c)
	112,000 Bal.		620 Bal.
Interest Payable		FICA-Medicare Taxes Payable	
	0 Beg. Bal.		0 Beg. Bal.
	27,225 (a)		73 (b)
			73 (c)
	27,225 Bal.		146 Bal.
Salaries Payable		Unearned Rent Revenue	
	0 Beg. Bal.		7,200 Beg. Bal.
	3,697 (b)	(d) 3,000	
	3,697 Bal.		4,200 Bal.
Employee Income Taxes Payable		Long-Term Notes Payable	
	0 Beg. Bal.		330,000 Beg. Bal.
	920 (b)		
	920 Bal.		330,000 Bal.

**Fast Ship**  
**Balance Sheet (partial)**  
**June 30, 2016**

Current Liabilities:

Accounts Payable	\$ 112,000
Current Portion of Notes Payable	66,000
Interest Payable	27,225
Salaries Payable	3,697
Employee Income Taxes Payable	920
FICA-OASDI Taxes Payable	620
FICA-Medicare Taxes Payable	146
Unearned Rent Revenue	4,200
Total Current Liabilities	<u>\$ 214,808</u>

12. Gross pay:	
Salary	\$ 148,800
Bonus	29,760
Gross Pay	<u>\$ 178,560</u>
Net pay:	
Gross pay	\$ 178,560
Withholding deductions:	
Federal income tax	\$ 34,224
State income tax	1,990
Employee OASDI tax	7,254
Employee Medicare tax	2,589
Charity fund contribution	3,571
Life insurance	<u>60</u>
Total withholdings	<u>49,688</u>
Net (take-home) pay	<u>\$ 128,872</u>
Gross pay \$ 178,560	
Employer Payroll Taxes:	
FICA-OASDI	\$ 7,254
FICA-Medicare	2,589
FUTA	42
SUTA	<u>378</u>
Total Employer Payroll Tax	<u>10,263</u>
Total Payroll Expense	<u>\$ 188,823</u>

Date	Accounts and Explanation	Debit	Credit
2016	Salaries Expense	148,800	
	Bonus Expense	29,760	
	Employee Federal Income Taxes Payable		34,224
	Employee State Income Taxes Payable		1,990
	FICA-OASDI Taxes Payable		7,254
	FICA-Medicare Taxes Payable		2,589
	Charity Fund Payable		3,571
	Life Insurance Payable		60
	Cash		128,872

Date	Accounts and Explanation	Debit	Credit
2016	Payroll Tax Expense	10,263	
	FICA-OASDI Taxes Payable		7,254
	FICA-Medicare Taxes Payable		2,589
	Federal Unemployment Taxes Payable		42
	State Unemployment Taxes Payable		378

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