

# Chapter 11

## Current Liabilities and Payroll

### Questions

1. A *current* liability is one that is payable within the coming year or within the company's normal operating cycle if longer than a year. All other liabilities are long term.
2. Retailers act as collecting agents for the federal government. Stores charge their customers GST, but the GST belongs to the federal government. The store has a liability to pay the federal government (Receiver General) the amount of tax collected less applicable input tax credits.
3. GST Recoverable or Input Tax Credit
4. The company reports current liabilities for the short-term note payable of \$50,000 and for interest payable of \$1,000 ( $\$50,000 \times 0.04 \times 6/12$ ).
5. The balance sheet would show a current liability of \$1,000 in an account called Current Portion of Long-Term Note Payable. The long-term liabilities section would report \$4,000 as the balance of the Note Payable.
6. If current were not separated from long-term debt, two ratios would be distorted—the current ratio and the acid-test ratio. The understated current liability would make both of the results more positive than they are in reality, and users of the financial information would be misled.
7. An accrued expense is an expense that has been incurred but has not been paid. Because the expense has been incurred but not paid, it must be accrued, thus it is a liability.
8. Accounts payable and short-term notes payable are both current liabilities—that is, both are due and payable within one year or within the company's operating cycle.

download all chapters via <https://r.24zhen.com/ef075>

### Differences:

- Accounts payable are amounts owed for products or services that are purchased on open account.
- Accounts payable have no interest obligation (however, if paid late, interest or late payment charges could be incurred); short-term notes payable have a defined rate of interest due over the term of the note.

9. At the beginning of the school term, tuition collected in advance is recorded as a *liability* of the school because it is an unearned revenue. At the end of the term, the tuition is moved to a *revenue* account because the tuition has been earned.
10. A customer deposit is a liability because the company has not provided service for the deposit and must refund that cash to its customers under certain conditions. The security deposit collected by telephone and other utility companies is an example.
11. The company's warranty expense for the year is \$50,000, the estimate based on the current year's sales. The matching objective demands that this expense be matched against the period's revenues.
12. A *contingent* liability is a potential liability that depends on a future event arising out of past events. The future event will determine the amount and existence of the liability. A contingent liability may or may not become an actual obligation.
13. Accounting *conservatism* (and the *CPA Canada Handbook*) tell us that contingent losses must be accrued or disclosed but that gains are not reported until realized.
14. Service businesses sell their employees' services, so employment compensation is their major expense of doing business, just as cost of goods sold is the largest expense in merchandising.
15. The amount of income tax withheld from employee paycheques depends on the employee's gross pay, the amount of non-refundable tax credits claimed on the Personal Tax Credit Form (TD1), and the tax rate set by CRA.
16. Required deductions: income tax, Canada (or Quebec) Pension Plan, and Employment Insurance.
17. Employers pay: Canada (or Quebec) Pension, Employment Insurance, Workers' Compensation, and, where applicable, provincial payroll taxes regarding health and education.
18. Employment insurance premiums are determined annually by the federal government. This answer is appropriate for 2021. Assuming a rate of 1.58 percent on earnings up to \$56,300, the maximum employment insurance premium this employee can pay is \$889.54. The employer will contribute 1.4 times this amount, or \$1,245.36.
19. Some companies use a special payroll bank account to keep the payroll cheques separate from the day-to-day business cheques. It may be easier to complete two bank reconciliations that are less complicated than one large bank reconciliation. Any payroll issues may also be highlighted in a separate payroll bank-account reconciliation.
20. A contingent liability is reported when it is *probable* that it will occur. The IFRS standard is lower than for ASPE.

# Starters

(10 min.) **S11-1**

General Journal					
Date 2022			Post. Ref.	Debit	Credit
a.	Dec.	31		Interest Expense	
				800	
				Interest Payable	800
				Accrued interest expense at year end. (\$32,000 × 0.06 × 5/12)	
	2023				
b.	Jul.	31		Note Payable, Short-Term	
				32,000	
				Interest Payable	800
				Interest Expense	1,120
				Cash	33,920
				Paid note and interest at maturity. (\$32,000 × 0.06 × 7/12)	

(5-10 min.) **S11-2**

<b>MISSION CO.</b>		
Balance Sheet (partial)		
December 31, 2022		
<b>Assets</b>	<b>Liabilities</b>	
	Current liabilities	
	Note payable, short-term	\$32,000
	Interest payable	800

<b>MISSION CO.</b>	
Income Sheet (partial)	
For the Year Ended December 31, 2022	
Revenues	
Expenses	
Interest expense	\$800

(5-10 min.) **S11-3**

<b>General Journal</b>				
<b>Date</b>	<b>Account Titles and Explanations</b>	<b>Post. Ref.</b>	<b>Debit</b>	<b>Credit</b>
Jul. 10	Inventory		15,000	
	GST Recoverable (GST = \$15,000 × 0.05)		750	
	Accounts Payable			15,750
	Purchased goods for resale on account			
Jul. 25	Accounts Receivable		21,000	
	GST Payable (GST = \$20,000 × 0.05)			1,000
	Sales Revenue			20,000
	Cost of Goods Sold		15,000	
	Inventory			15,000
	To record sale of goods on account			
Aug. 10	GST Payable		1,000	
	GST Recoverable			750
	Cash			250
	Paid July GST to Receiver General.			

(5 min.) **S11-4**

Kraft-Kwon will report \$56,000 as the current portion of notes payable in the current liability section. The remaining \$224,000 will show as notes payable in the long-term liability section.

(5-10 min.) **S11-5**

<b>General Journal</b>				
<b>Date</b>	<b>Account Titles and Explanations</b>	<b>Post. Ref.</b>	<b>Debit</b>	<b>Credit</b>
Jul. 1	Cash		5,000	
	Unearned Subscription Revenue			5,000
	To record subscription revenue received in advance for one-year subscriptions.			
Dec. 31	Unearned Subscription Revenue		2,083	
	Sales Revenue			2,083
	To record five months of magazines sent and revenue earned ( $\$5,000 \times 5/12$ )			

(10 min.) **S11-6**

<b>General Journal</b>				
<b>Date 2022</b>	<b>Account Titles and Explanations</b>	<b>Post. Ref.</b>	<b>Debit</b>	<b>Credit</b>
Dec. 31	Equipment		16,000	
	Note Payable			16,000
	Purchased equipment to be paid with a one-year, 9 percent note.			
2023				
May 31	Interest Expense		600	
	Interest Payable			600
	To accrue interest at year end ( $\$16,000 \times 0.09 \times 5/12$ )			
Dec. 31	Note Payable		16,000	
	Interest Expense		840	
	Interest Payable		600	
	Cash			17,440
	Paid note in full with interest. ( $\$16,000 \times 0.09 \times 7/12 = \text{balance of expense}$ )			

(5-10 min.) **S11-7**

1.

General Journal				
Date 2022	Account Titles and Explanations	Post. Ref.	Debit	Credit
Dec. 31	Warranty Expense		8,120	
	Estimated Warranty Payable			8,120
	To record estimated warranty liability. \$580,000 × 0.014 = \$8,120			
Dec. 31	Estimated Warranty Payable		8,750	
	Cash			8,750
	To record payment of warranty repairs.			

2.

Estimated Warranty Payable			
		Bal.	2,200
Payments	8,750	Estimate	8,120
		Bal. Dec. 31	1,570



(10 min.) **S11-8**

Req. 1

General Journal				
Date 2023	Account Titles and Explanations	Post. Ref.	Debit	Credit
Dec. 31	Cash		180,000	
	Notes Receivable		420,000	
	Sales Revenue			600,000
	To record sales. 30 percent paid cash: \$600,000 × 0.30. Notes receivable for the balance = \$600,000 – \$180,000.			
31	Warranty Expense		12,000	
	Estimated Warranty Payable			12,000
	To record warranty estimate (\$600,000 × 0.02).			
31	Estimated Warranty Payable		10,000	
	Cash			10,000
	To pay warranty claims.			

Req. 2

download all chapters via <https://r.24zhen.com/ef075>

Estimated Warranty Payable			
Payments	10,000	Estimate	12,000
		Bal.	2,000

The estimated warranty payable balance at the end of 2023 is \$2,000.

(5-10 min.) **S11-9**

Warranty expense = \$12,000

The warranty expense for the year does not necessarily equal the year's cash payments for warranties. Cash payments for warranties do not determine the amount of warranty expense for that year. Instead, the warranty expense is estimated and matched against revenue during the period of the sale, regardless of when the company pays for the warranty claims.

The *matching objective* addresses this situation.

(5-10 min.) **S11-10**

General Journal				
Date	Account Titles and Explanations	Post. Ref.	Debit	Credit
Jan. 13	Vacation Pay Expense		660	
	Estimated Vacation Pay Liability			660
	To record the vacation pay accrual. ((6 × \$1,250 × .04) + (3 × \$2,000 × .06))			

(5-10 min.) **S11-11**

- These are *contingent* liabilities because at the time of the note Bombardier was not liable for any of these trade-ins because they had not yet occurred.
- The contingency can become a real liability if a customer of Bombardier purchases a new aircraft and wants to trade in their pre-owned aircraft.

(5-10 min.) **S11-12**

Gross pay .....	\$4,000
Less:	
Withheld mandatory deductions ( $\$4,000 \times 0.20$ ) .....	\$(800)
Pension contribution ( $\$4,000 \times 0.04$ ) .....	(160)
Medical/dental insurance premium.....	<u>(60)</u> <u>(1,020)</u>
Net pay .....	<u>\$2,980</u>

(10 min.) **S11-13**

1. Straight-time pay for 40 hours .....	\$840.00
Overtime pay for 10 hours: $[10 \times (\$840/40 \times 1.5)]$ .....	<u>315.00</u>
Gross pay .....	<u>\$1,155.00</u>
2. Gross pay .....	\$1,155.00
Less: Withheld income tax ( $\$1,155 \times 0.20$ ) .....	\$231.00
Withheld CPP $[(\$1,155 - \$67.31) \times 0.0545]$ .....	59.28
Withheld EI ( $\$1,155 \times 0.0158$ ) .....	<u>18.25</u> <u>308.53</u>
Net pay .....	<u>\$846.47</u>

**(10 min.) S11-14**

Straight-time pay for 40 hours .....	\$ 840.00
Overtime pay for 10 hours: $[10 \times (840/40 \times 1.5)]$ .....	<u>315.00</u>
Gross pay to employee .....	1,155.00
Employer payroll expenses:	
CPP expense (\$59.28 from S11-13).....	59.28
EI expense $(1.4 \times \$18.25 \text{ from S11-13})$ .....	25.55
Pension $(\$1,155 \times 0.05)$ .....	57.75
Provincial health insurance .....	15.00
Disability insurance .....	<u>2.00</u>
	<u>159.58</u>
Total expense of employer.....	<u>\$ 1,314.58</u>

**(10-20 min.) S11-15**

<b>General Journal</b>				
<b>Date</b>	<b>Account Titles and Explanations</b>	<b>Post. Ref.</b>	<b>Debit</b>	<b>Credit</b>
Jun. 30	Salary Expense		2,000.00	
	Employee Income Tax Payable			349.64
	Canada Pension Plan Payable			105.33
	Employment Insurance Payable			31.60
	Salaries Payable			1,513.43
30	Employee Benefits Expense		149.57	
	Canada Pension Plan Payable			105.33
	Employment Insurance Payable			44.24

Employer portion of EI =  $\$31.60 \times 1.4 = 44.24$

(10-20 min.) **S11-16**

a.

General Journal				
Date	Account Titles and Explanations	Post. Ref.	Debit	Credit
Feb. 7	Salary Expense		1,155.00	
	Employee Income Tax Payable			231.00
	Canada Pension Plan Payable			59.28
	Employment Insurance Payable			18.25
	Cash			846.47
	To record salary expense and employee withholdings. (See S11-13 for calculations.)			

b.

General Journal				
Date	Account Titles and Explanations	Post. Ref.	Debit	Credit
Feb 7	Pension Expense		57.75	
	Provincial Health Insurance Expense		15.00	
	Disability Insurance Expense		2.00	
	Employee Benefits Payable			74.75
	To record employee benefits payable. (See S11-14 for calculations.)			

c.

General Journal				
Date	Account Titles and Explanations	Post. Ref.	Debit	Credit
Feb 7	Employee Benefits Expense		84.83	
	Canada Pension Plan Payable			59.28
	Employment Insurance Payable			25.55
	To record employer's payroll expenses. (See S11-14 for calculations.)			

(5-10 min.) **S11-17**

General Journal				
Date	Account Titles and Explanations	Post. Ref.	Debit	Credit
Mar. 15	Employment Insurance Payable		43.80	
	Canada Pension Plan Payable		118.56	
	Employee Income Tax Payable		231.00	
	Cash			393.36
	To record remittance to CRA. EI Payable = \$18.25 + \$25.55 = \$43.80 CPP Payable = \$59.28 + \$59.28 = \$118.56			

(10 min.) **S11-18**

1.	Total payroll expense (\$1,155.00 + \$74.75 + \$84.83) .....	\$1,314.58
2.	Net (take-home) pay .....	\$846.47
3.	Employee paid:	
a.	Income tax .....	\$231.00
b.	CPP ..... \$59.28	
	EI..... <u>18.25</u>	\$77.53
4.	Employer's expense for:	
a.	CPP and EI (\$59.28 + \$25.55).....	\$84.83
b.	Benefits (\$57.75 + \$15.00 + \$2.00).....	\$74.75

(5-10 min.) **S11-19**

<b>General Journal</b>				
<b>Date</b>	<b>Account Titles and Explanations</b>	<b>Post. Ref.</b>	<b>Debit</b>	<b>Credit</b>
Aug. 30	Salaries Expense		155,000.00	
	Employee Union Dues Payable			1,050.00
	Donations Payable			375.00
	Canada Pension Plan Payable			7,320.00
	Employment Insurance Payable			2,836.00
	Employee Income Tax Payable			31,250.00
	Cash			112,169.00
30	Employee Benefits Expense		11,290.40	
	Canada Pension Plan Payable			7,320.00
	Employment Insurance Payable			3,970.40
Sep. 15	Employee Income Tax Payable		31,250.00	
	Canada Pension Plan Payable		14,640.00	
	Employment Insurance Payable		6,806.40	
	Cash			52,696.40
15	Donations Payable		375.00	
	Cash			375.00
15	Employee Union Dues Payable		1,050.00	
	Cash			1,425.00

(5-10 min.) **S11-20**

- a. C
- b. C
- c. C
- d. C and, in some cases, L for any portion of the warranty liability due in more than one year
- e. C and, in some cases, L for unearned revenue to be earned more than one year from the balance-sheet date
- f. C download all chapters via <https://r.24zhen.com/ef075>
- g. L
- h. C

**Exercises**(5-10 min.) **E11-1**

<b>General Journal</b>				
<b>Date</b>	<b>Account Titles and Explanations</b>	<b>Post. Ref.</b>	<b>Debit</b>	<b>Credit</b>
2022				
Jun. 1	Delivery Truck		86,000	
	Note Payable, Short-Term			86,000
Dec. 31	Interest Expense		3,010	
	Interest Payable			3,010
	Expense = $\$86,000 \times 0.06 \times 7/12$			
2023				
Jun. 1	Note Payable, Short-Term		86,000	
	Interest Payable		3,010	
	Interest Expense		2,150	
	Cash			91,160
	Expense = $\$86,000 \times 0.06 \times 5/12$ Cash = $\$86,000 + (\$86,000 \times 0.06)$			

download all chapters via <https://r.24zhen.com/ef075>

(5-10 min.) **E11-2**

General Journal				
Date	Account Titles and Explanations	Post. Ref.	Debit	Credit
May 8	Inventory		2,000	
	GST Recoverable ( $\$2,000 \times 0.05$ )		100	
	Accounts Payable—Seguin			2,100
10	Accounts Payable—Seguin		315	
	GST Recoverable ( $\$300 \times 0.05$ )			15
	Inventory			300
12	Accounts Receivable—Dainty Store		3,150	
	GST Payable ( $\$3,000 \times 0.05$ )			150
	Sales Revenue			3,000
	Cost of Goods Sold		1,300	
	Inventory			1,300
28	Cash		3,150	
	Accounts Receivable—Dainty Store			3,150
30	Accounts Payable—Seguin		1,785	
	Cash			1,785
Jun. 15	GST Payable		150	
	GST Recoverable			85
	Cash			65



(5-10 min.) **E11-3**

<b>General Journal</b>				
<b>Date</b>	<b>Account Titles and Explanations</b>	<b>Post. Ref.</b>	<b>Debit</b>	<b>Credit</b>
Aug. 3	Inventory		3,000	
	HST Recoverable ( $\$3,000 \times 0.13$ )		390	
	Accounts Payable—Shoe-tastic			3,390
11	Accounts Payable—Shoe-tastic		452	
	HST Recoverable ( $\$400 \times 0.13$ )			52
	Inventory			400
19	Accounts Receivable—Jazz Masters		1,130	
	HST Payable ( $\$1,000 \times 0.13$ )			130
	Sales Revenue			1,000
	Cost of Goods Sold		500	
	Inventory			500
30	Accounts Payable—Shoe-tastic		2,938	
	Cash			2,938
Sep. 23	HST Payable		130	
	Cash		208	
	HST Recoverable			338
	download all chapters via <a href="https://r.24zhen.com/ef075">https://r.24zhen.com/ef075</a>			