SOLUTIONS TO EXERCISES

EXERCISE 13-1 (10–15 minutes)

(a) Current liability.
(b) Current liability.
(c) Current liability or long-term liability depending on term of warranty.
(d) Current liability.
(e) Current liability.
(f) Current liability.
(g) Current or noncurrent liability depending upon the time involved.
(h) Current liability.
(i) Current liability.
(j) Current liability.
(k) Current liabilities or long-term liabilities as a deduction from face value of note.
(l) Footnote disclosure (assume not probable and/or not reasonably estimable).
(m) Current liability.
(n) Current liability.
(o) Footnote disclosure.
(p) Separate presentation in either current or long-term liability section.

EXERCISE 13-2 (15–20 minutes)

(a) Sept. 1 Purchases ....................................................... 50,000
    Accounts Payable ........................................... 50,000

    Oct. 1 Accounts Payable ........................................ 50,000
    Notes Payable ............................................... 50,000

    Oct. 1 Cash ........................................................... 50,000
    Discount on Notes Payable ................................. 4,000
    Notes Payable ............................................... 54,000

(b) Dec. 31 Interest Expense ........................................... 1,000
    Interest Payable ............................................... 1,000
    ($50,000 X 8% X 3/12)

    Dec. 31 Interest Expense ........................................ 1,000
    Discount on Notes Payable ................................. 1,000
    ($4,000 X 3/12)
EXERCISE 13-2 (Continued)

(c) (1) Note payable $50,000
   Interest payable 1,000
   $51,000

(2) Note payable $54,000
   Less discount ($4,000 – $1,000) 3,000
   $51,000

EXERCISE 13-3 (10–12 minutes)

Hattie McDaniel Company
Partial Balance Sheet
December 31, 2007

Current liabilities:
   Notes payable (Note 1) $250,000

Long-term debt:
   Notes payable refinanced in February 2008 (Note 1) 950,000

Note 1.
Short-term debt refinanced. As of December 31, 2007, the company
had notes payable totaling $1,200,000 due on February 2, 2008. These
notes were refinanced on their due date to the extent of $950,000 received
from the issuance of common stock on January 21, 2008. The balance of
$250,000 was liquidated using current assets.

OR

Current liabilities:
   Notes payable (Note 1) $250,000

Long-term debt:
   Short-term debt expected to be refinanced (Note 1) 950,000

(Same Footnote as above.)
EXERCISE 13-6 (Continued)

(b) Accrued liability at year-end:

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 1 balance</td>
<td>$0</td>
<td>$7,740</td>
</tr>
<tr>
<td>+ accrued</td>
<td>7,740</td>
<td>8,352</td>
</tr>
<tr>
<td>– paid</td>
<td>(0)</td>
<td>(6,966)</td>
</tr>
<tr>
<td>Dec. 31 balance</td>
<td>$7,740</td>
<td>$9,126</td>
</tr>
</tbody>
</table>

(1)  9 employees X $10.75/hr. X 8 hrs./day X 10 days = $7,740

(2) 9 employees X $10.75/hr. X 8 hrs./day X 1 day = $774
     9 employees X $11.60/hr. X 8 hrs./day X 10 days = $8,352
     $9,126

EXERCISE 13-7 (5–7 minutes)

June 30

Sales.................................................................................. 21,900
Sales Tax Payable................................................................ 21,900
Computation:
Sales plus sales tax ($233,200 + $153,700) $386,900
Sales exclusive of tax ($386,900 ÷ 1.06) 365,000
Sales tax $ 21,900

EXERCISE 13-8 (10–15 minutes)

Wages and Salaries Expense ........................................... 480,000
Withholding Taxes Payable ............................................ 80,000
FICA Taxes Payable*..................................................... 29,900
Union Dues Payable....................................................... 9,000
Cash................................................................................. 361,100

*[(480,000 – $110,000) X 7.65% = $28,305
$110,000 X 1.45% = $1,595; $28,305 + $1,595 = $29,900

13-20
EXERCISE 13-8 (Continued)

Payroll Tax Expense............................................................. 31,500
  FICA Taxes Payable.......................................................... 29,900
  (See previous computation.)
  Federal Unemployment Tax Payable............................. 640
  [($480,000 – $400,000) X .8%)
  State Unemployment Tax Payable............................. 960
  [$80,000 X (3.5% – 2.3%)]

EXERCISE 13-9 (15–20 minutes)

(a) Computation of taxes

<table>
<thead>
<tr>
<th></th>
<th>Factory</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages</td>
<td>$120,000</td>
<td>$32,000</td>
</tr>
<tr>
<td>Social security taxes (FICA)</td>
<td>9,180</td>
<td>1,208*</td>
</tr>
<tr>
<td>Federal unemployment taxes</td>
<td>320</td>
<td>32</td>
</tr>
<tr>
<td>State unemployment taxes</td>
<td>1,000</td>
<td>100</td>
</tr>
<tr>
<td>Total Cost</td>
<td>$130,500</td>
<td>$33,340</td>
</tr>
</tbody>
</table>

* $12,000 X 7.65% = $918; $20,000 X 1.45% = $290; $918 + $290 = $1,208

Administrative

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages</td>
<td>$36,000</td>
</tr>
<tr>
<td>Social security taxes (FICA)</td>
<td>2,754</td>
</tr>
<tr>
<td>Federal unemployment taxes</td>
<td>– 0 –</td>
</tr>
<tr>
<td>State unemployment taxes</td>
<td>– 0 –</td>
</tr>
<tr>
<td>Total Cost</td>
<td>$38,754</td>
</tr>
</tbody>
</table>
EXERCISE 13-9 (Continued)

Sales Payroll:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages and Salaries Expense</td>
<td>32,000</td>
</tr>
<tr>
<td>7,000</td>
<td></td>
</tr>
<tr>
<td>FICA Taxes Payable</td>
<td>1,208</td>
</tr>
<tr>
<td>Cash</td>
<td>23,792</td>
</tr>
</tbody>
</table>

Payroll Tax Expense ....................................................... 1,340

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,208</td>
<td></td>
</tr>
<tr>
<td>Federal Unemployment Tax Payable............</td>
<td>32</td>
</tr>
<tr>
<td>State Unemployment Tax Payable .............</td>
<td>100</td>
</tr>
</tbody>
</table>

Administrative Payroll:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages and Salaries Expense</td>
<td>36,000</td>
</tr>
<tr>
<td>6,000</td>
<td></td>
</tr>
<tr>
<td>FICA Taxes Payable</td>
<td>2,754</td>
</tr>
<tr>
<td>Cash</td>
<td>27,246</td>
</tr>
</tbody>
</table>

Payroll Tax Expense ....................................................... 2,754

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,754</td>
<td></td>
</tr>
</tbody>
</table>

EXERCISE 13-10 (10–15 minutes)

(a) Cash (200 X $4,000) .......................................................... 800,000

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>800,000</td>
</tr>
<tr>
<td>Warranty Expense</td>
<td>17,000</td>
</tr>
<tr>
<td>Cash</td>
<td>17,000</td>
</tr>
</tbody>
</table>

Warranty Expense (66,000* – $17,000) .......... 49,000

Estimated Liability Under Warranties .......... 49,000

*(200 X $330)

(b) Cash ................................................................. 800,000

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>800,000</td>
</tr>
<tr>
<td>Warranty Expense</td>
<td>17,000</td>
</tr>
<tr>
<td>Cash</td>
<td>17,000</td>
</tr>
</tbody>
</table>
EXERCISE 13-13 (20–30 minutes)

1. The FASB requires that, when some amount within the range of expected loss appears at the time to be a better estimate than any other amount within the range, that amount is accrued. When no amount within the range is a better estimate than any other amount, the dollar amount at the low end of the range is accrued and the dollar amount at the high end of the range is disclosed. In this case, therefore, Salt-n-Pepa Inc. would report a liability of $900,000 at December 31, 2007. (See FIN14: Reasonable Estimation of the Amount of a Loss: An Interpretation of SFAS No. 5.)

2. The loss should be accrued for $5,000,000. The potential insurance recovery is a gain contingency—it is not recorded until received.

3. This is a gain contingency because the amount to be received will be in excess of the book value of the plant. Gain contingencies are not recorded and are disclosed only when the probabilities are high that a gain contingency will become reality.

EXERCISE 13-14 (25–30 minutes)

(a) Depot ................................................................. 600,000
    Cash ................................................................. 600,000

(b) Depreciation Expense ........................................ 60,000
    Accumulated Depreciation ................................. 60,000

    Depreciation Expense ........................................ 4,187.90
    Accumulated Depreciation ................................. 4,187.90*

    Interest Expense ................................................ 2,512.74
    Asset Retirement Obligation ............................... 2,512.74**

* $41,879/10.
** $41,879 X .06.
EXERCISE 13-14 (Continued)

(c)  
- Asset Retirement Obligation ........................................... 75,000  
- Loss on ARO Settlement ............................................... 5,000  
- Cash ........................................................................ 80,000

EXERCISE 13-15 (25–35 minutes)

1. Liability for stamp redemptions, 12/31/06 $13,000,000  
   - Cost of redemptions redeemed in 2007 (6,000,000)  
   - Cost of redemptions to be redeemed in 2008 (5,200,000 X 80%) 4,160,000  
   - Liability for stamp redemptions, 12/31/07 $11,160,000

2. Total coupons issued $800,000  
   - Redemption rate 60%  
   - To be redeemed 480,000  
   - Handling charges ($480,000 X 10%) 48,000  
   - Total cost $528,000  
   - Total cost $528,000  
   - Total payments to retailers 330,000  
   - Liability for unredeemed coupons $198,000

3. Boxes 700,000  
   - Redemption rate 70%  
   - Total redeemable 490,000  
   - Coupons to be redeemed (490,000 – 250,000) 240,000  
   - Cost ($6.50 – $4.00) $2.50  
   - Liability for unredeemed coupons $600,000