## Optional Assignment Characteristics Table

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BRIEF EXERCISE 13-4

(a) Since both criteria are met (intent and ability), none of the $500,000 would be reported as a current liability. The entire amount would be reported as a long-term liability.

(b) Because repayment of the note payable required the use of existing 12/31/12 current assets, the entire $500,000 liability must be reported as current.

BRIEF EXERCISE 13-8

Wages Expense (30 X 2 X $500) ................................................................. 30,000
Vacation Wages Payable ................................................................. 30,000

BRIEF EXERCISE 13-10

(a) Loss on Lawsuit ................................................................. 900,000
Lawsuit Liability ................................................................. 900,000

(b) No entry is necessary. The loss is not accrued because it is not probable that a liability has been incurred at 12/31/12.

BRIEF EXERCISE 13-12

Oil Platform .................................................................................. 450,000
Asset Retirement Obligation ......................................................... 450,000

BRIEF EXERCISE 13-15

Premium Expense ........................................................................ 96,000
Liability for Premiums ................................................................ 96,000
[est. future redemptions = (30% x 1,200,000) − 120,000 = 240,000 ]
[cost of est. claims outstanding = (240,000 / 3) X ($1.10 + $0.60 − $0.50)]

EXERCISE 13-2

(a) Sept. 1 Purchases ...................................................................... 50,000
    Accounts Payable ................................................................. 50,000
Oct. 1 Accounts Payable .............................................................. 50,000
    Notes Payable ................................................................. 50,000
Oct. 1 Cash .................................................................................. 75,000
    Discount on Notes Payable ............................................. 6,000
    Notes Payable ................................................................. 81,000

(b) Dec. 31 Interest Expense ($50,000 X 8% X 3/12) ....................... 1,000
     Interest Payable ................................................................. 1,000
Dec. 31 Interest Expense ............................................................. 1,500
     Discount on Notes Payable ($6,000 X 3/12) ............ 1,500
EXERCISE 13-2 continued

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

(2) Note payable $81,000
Less discount ($6,000 – $1,500) (4,500)
$76,500

EXERCISE 13-6

(a)  2012  To accrue the expense and liability for vacations:
Wages Expense................................................................. 9,288
Vacation Wages Payable................................................. 9,288
(9 employees X 8 hrs/day X 10 days X $12.90/hr)

To record sick leave paid:
Wages Expense................................................................. 3,456
Cash................................................................. 3,456
(9 employees X 8 hrs/day X 4 days X $12/hr (actual))

To record vacation time paid:
No entry, since no vacation days were used.

2013  To accrue the expense and liability for vacations:
Wages Expense................................................................. 9,864
Vacation Wages Payable................................................. 9,864
(9 employees X 8 hrs/day X 10 days X $13.70/hr)

To record sick leave paid:
Wages Expense................................................................. 4,680
Cash................................................................. 4,680
(9 employees X 8 hrs/day X 5 days X $13/hr (actual))

To record vacation time paid:
Wage Expense (plug) .......................................................... 65
Vacation Wages Payable.................................................. 8,359 (1)
Cash................................................................. 8,424 (2)
(1) (9 employees X 8 hrs/day X 9 days X $12.90/hr)
(2) (9 employees X 8 hrs/day X 9 days X $13/hr)

(b)  Accrued liability at year-end (vacation pay):

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 1 balance</td>
<td>$ 0</td>
<td>$9,288</td>
</tr>
<tr>
<td>+ accrued</td>
<td>9,288</td>
<td>9,864</td>
</tr>
<tr>
<td>– paid</td>
<td>( 0)</td>
<td>(8,359)</td>
</tr>
<tr>
<td>Dec. 31 balance</td>
<td>$9,288 (1)</td>
<td>$10,793 (2)</td>
</tr>
</tbody>
</table>

(1) (9 employees X 8 hrs/day X 10 days X $12.90/hr)
(2) [(9 employees X 8 hrs/day X 1 day X $12.90/hr) + (9 employees X 8 hrs/day X 10 days X $13.70/hr)]

EXERCISE 13-7  (AJE assumes that taxes initially recorded in sales account)

June 30  Sales................................................................. 23,700
Sales Tax Payable ($395,000 X 6%) ........................................ 23,700
[Sales exclusive of tax = (($265,000 + $153,700) / 1.06) = $395,000]
EXERCISE 13-8

To record payment of payroll:

Wages and Salaries Expense ......................................................... 480,000
  Withholding Income Taxes Payable ........................................... 80,000
  FICA Taxes Payable .............................................................. 28,040
  Union Dues Payable ............................................................... 9,000
  Cash .............................................................................. 362,960

FICA = (($480,000 – $140,000) X 7.65%) + ($140,000 X 1.45%)

To record employer's payroll taxes:

Payroll Tax Expense ................................................................. 29,440
  FICA Taxes Payable .............................................................. 28,040
  Federal Unemployment Tax Payable [(($480,000 – $410,000) X 0.8%) .... 560
  State Unemployment Tax Payable [$70,000 x (3.5% – 2.3%)] ............ 840

EXERCISE 13-9 (b. only for factory & sales functions)

Factory:  Wages and Salaries Expense ........................................... 140,000
  Withholding Income Taxes Payable ........................................... 16,000
  FICA Taxes Payable ($140,000 x 7.65%) .................................. 10,710
  Cash .............................................................................. 113,290

Payroll Tax Expense ................................................................. 12,030
  FICA Taxes Payable (same as above) ........................................ 10,710
  Federal Unemployment Tax Payable ($40,000 x .8%) ................. 320
  State Unemployment Tax Payable ($40,000 x 2.5%) ................. 1,000

Sales:  Wages and Salaries Expense ........................................... 32,000
  Withholding Income Taxes Payable ........................................... 7,000
  FICA Taxes Payable [($12,000 x 7.65%) + ($20,000 x 1.45%)]... 1,208
  Cash .............................................................................. 23,792

Payroll Tax Expense ................................................................. 1,340
  FICA Taxes Payable .............................................................. 1,208
  Federal Unemployment Tax Payable ($4,000 x .8%) ............... 32
  State Unemployment Tax Payable ($4,000 x 2.5%) .............. 100

EXERCISE 13-11

(a)  Cash .............................................................................. 3,000,000
    Sales (500 X $6,000) ............................................................. 3,000,000

Warranty Expense ................................................................. 30,000
  Cash, Inventory, Accrued Payroll ........................................... 30,000

AJE  Warranty Expense ($120,000 – $30,000) ................................ 90,000
  Warranty Liability ................................................................ 90,000
**EXERCISE 13-11 continued**

(b) Cash .............................................................. 3,000,000  
Sales.............................................................................. 2,840,000  
Unearned Warranty Revenue........................................... 160,000  
Warranty Expense...................................................... 30,000  
Cash, Inventory, Accrued Payroll.................................................. 30,000  
AJE Unearned Warranty Revenue.................................................. 40,000  
Warranty Revenue [$160,000 X ($30,000/$120,000)].......................... 40,000

**EXERCISE 13-12**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory of Premiums (8,800 X $.90)</td>
<td>7,920</td>
</tr>
<tr>
<td>Cash (120,000 X $3.30)</td>
<td>396,000</td>
</tr>
<tr>
<td>Premium Expense</td>
<td>3,960</td>
</tr>
<tr>
<td>Premium Expense [(120,000 X 60%) / 10 X $.90] = $6,480 – $3,960</td>
<td>2,520</td>
</tr>
</tbody>
</table>

**EXERCISE 13-15**

1. Liability for stamp redemptions, 12/31/11 | $13,000,000  
   2012 Cost of redemptions for stamps sold prior to 2012 | (6,000,000)  
   Estimated cost of redemptions in 2013 (5,200,000 X 80%) | 4,160,000  
   Liability for stamp redemptions, 12/31/12 | $11,160,000

2. Total coupons expected to be redeemed ($850,000 x 60%) | $510,000  
   Handling charges ($510,000 X 10%) | 51,000  
   Total cost | $561,000  
   Total payments to retailers | (330,000)  
   Liability for unredeemed coupons | $231,000

3. Total coupons expected to be redeemed (600,000 x 70%) | 420,000  
   Coupons redeemed in 2012 | (250,000)  
   Remaining coupons expected to be redeemed | 170,000  
   Cost ($6.00 + $.50 – $4.00) | x $2.50  
   Liability for unredeemed coupons | $425,000
PROBLEM 13-1

(a) Feb. 2  Purchases ($70,000 X 98%) ......................................................... 68,600
          Accounts Payable ........................................................... 68,600

       Feb. 26  Accounts Payable ......................................................... 68,600
          Purchase Discounts Lost .................................................... 1,400
          Cash .............................................................................. 70,000

       Apr. 1   Trucks ................................................................. 50,000
          Cash .............................................................................. 4,000
          Notes Payable ................................................................. 46,000

       May 1   Cash ................................................................. 83,000
          Discount on Notes Payable ................................................... 9,000
          Notes Payable ................................................................. 92,000

       Aug. 1  Retained Earnings (Dividends Declared) ..................................... 300,000
          Dividends Payable .............................................................. 300,000

       Sept. 10 Dividends Payable .......................................................... 300,000
          Cash .............................................................................. 300,000

(b) Dec. 31 (NO AJEs necessary for items 1 & 4)

       2. Interest Expense ($46,000 X 12% X 9/12) ..................................... 4,140
          Interest Payable ................................................................. 4,140

       3. Interest Expense ................................................................. 6,000
          Discount on Notes Payable ($9,000 X 8/12) ................................ 6,000

PROBLEM 13-2

1. Dec. 5  Cash ................................................................. 500
          Returnable Deposit (Liability) ............................................ 500

2. Dec. 1-31 Cash ........................................................ 798,000
          Sales ($798,000 / 1.05) ...................................................... 760,000
          Sales Taxes Payable ($760,000 X .05) .............................. 38,000

3. Dec. 10 Trucks ($120,000 X 1.05) ........................................... 126,000
          Cash ................................................................. 126,000

4. Dec. 31 Parking Lot ...................................................... 84,000
          Asset Retirement Obligation ............................................ 84,000
**PROBLEM 13-6**

(a) Cash ................................................................................................................. 294,300  
Sales (300 X $900)............................................................................................... 270,000  
Unearned Warranty Revenue (270 X $90).......................................................... 24,300

(b) (Note: Warranty revenue recognized on straight-line basis)

Current Liabilities:  
Unearned Warranty Revenue ($24,300 X 1/3)....................................................... $8,100
Long-term Liabilities:  
Unearned Warranty Revenue ($24,300 X 2/3)....................................................... $16,200

(c) Warranty Expense ............................................................................................ 6,000  
Parts Inventory.......................................................... 2,000  
Accrued Payroll .................................................. 4,000  
Unearned Warranty Revenue.......................................................... 8,100  
Warranty Revenue.................................................. 8,100

(d) Current Liabilities:  
Unearned Warranty Revenue................................................................................. $8,100
Long-term Liabilities:  
Unearned Warranty Revenue................................................................................. $8,100

**PROBLEM 13-7 (a. and c. only)**

(a) (1) Cash or Accounts Receivable............................................................... 4,440,000  
Sales (600 X $7,400)............................................................................................... 4,440,000

(2) Warranty Expense ............................................................................................ 117,000  
Parts Inventory ($170 X 600 X 1/2)................................................................. 51,000  
Accrued Payroll ($220 X 600 X 1/2)................................................................. 66,000

(3) Warranty Expense [(600 X $390) = $234,000 – $117,000]....... 117,000  
Warranty Liability .......................................................... 117,000

(4) Warranty Liability ............................................................................................ 117,000  
Parts Inventory.......................... 51,000  
Accrued Payroll.......................... 66,000

(c) Expense warranty accrual method:

The 12/31/12 balance sheet includes Warranty Liability as a current liability for $117,000.
PROBLEM 13-9

(a)

2012

<table>
<thead>
<tr>
<th>Account</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory of Premium CDs</td>
<td>562,500</td>
<td>562,500</td>
</tr>
<tr>
<td>Cash</td>
<td>868,620</td>
<td>868,620</td>
</tr>
<tr>
<td>Sales (2,895,400 x $.30)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash [240,000 x ($2.50 – $.50)]</td>
<td>480,000</td>
<td></td>
</tr>
<tr>
<td>Premium Expense [240,000 x ($2.25 + $.50 – $2.50)]</td>
<td>60,000</td>
<td></td>
</tr>
<tr>
<td>Inventory of Premium CDs [(1,200,000 / 5) = 240,000 x $2.25]</td>
<td></td>
<td>540,000</td>
</tr>
<tr>
<td>Premium Expense</td>
<td>14,500</td>
<td></td>
</tr>
<tr>
<td>Premium Liability [(290,000 / 5) x ($2.25 + $.50 – $2.50)]</td>
<td>14,500</td>
<td></td>
</tr>
</tbody>
</table>

2013

<table>
<thead>
<tr>
<th>Account</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory of Premium CDs</td>
<td>742,500</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>823,080</td>
<td></td>
</tr>
<tr>
<td>Sales (2,743,600 x $.30)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash [300,000 x ($2.50 – $.50)]</td>
<td>600,000</td>
<td></td>
</tr>
<tr>
<td>Premium Liability (account balance)</td>
<td>14,500</td>
<td></td>
</tr>
<tr>
<td>Premium Expense [(300,000 x ($2.25 + $.50 – $2.50)) – $14,500]</td>
<td>60,500</td>
<td></td>
</tr>
<tr>
<td>Inventory of Premium CDs [(1,500,000 / 5) = 300,000 x $2.25]</td>
<td></td>
<td>675,000</td>
</tr>
<tr>
<td>Premium Expense</td>
<td>17,500</td>
<td></td>
</tr>
<tr>
<td>Premium Liability [(350,000 / 5) x ($2.25 + $.50 – $2.50)]</td>
<td>17,500</td>
<td></td>
</tr>
</tbody>
</table>

(b) Account | Amount | Classification |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory of Premium CDs</td>
<td>$22,500*</td>
<td>Current asset</td>
</tr>
<tr>
<td>Premium Liability</td>
<td>14,500</td>
<td>Current liability</td>
</tr>
<tr>
<td>Premium Expense</td>
<td>74,500***</td>
<td>Operating expense (selling)</td>
</tr>
</tbody>
</table>

*[(250,000 – 240,000) x $2.25]
***($60,000 + $14,500)

PROBLEM 13-10

(a) Because the event resulting in litigation occurred before the date of the financial statements and an unfavorable outcome is probable and reasonably estimable, Windsor Airlines should report a loss and a liability in the December 31, 2012 financial statements. The journal entry would be:

Loss from Uninsured Accident ($9,000,000 X 60%) .................. 5,400,000
Liability for Uninsured Accident ........................................... 5,400,000

Note to Financial Statements: The Company is a defendant in personal injury suits totaling $9,000,000 resulting from an accident occurring in 2012, and has accrued $5,400,000 for estimated losses, which represents the amount that the company legal counsel estimates will ultimately be awarded.

(b) Windsor Airlines need not establish a liability for risk of loss from lack of insurance coverage itself. GAAP does not require or allow the establishment of a liability for expected future injury to others or damage to the property of others even if the amount of the losses is reasonably estimable. The event causing a loss must occur on or before the balance sheet date for a loss contingency to be recorded.
PROBLEM 13-11 (a. only)

(a) 1. Loss from Uninsured Accident .......................................................... 250,000
    Liability for Uninsured Accident .......................................................... 250,000

The loss contingency is recorded because (i) information is available prior to the issuance of the financial statements that indicates it is probable that a liability had been incurred at the date of the financial statements and (ii) the amount is reasonably estimable.

2. Loss from Expropriation ([$5,725,000 – (40% X $9,500,000)]) .................. 1,925,000
    Allowance for Expropriation .................................................................... 1,925,000

The loss contingency is recorded because the expropriation is probable (evidenced by the foreign government’s communicated intent to expropriate) and the amount is reasonably estimated from prior settlements for properties already expropriated. The amount of the loss is measured by the amount that the book value of the assets exceeds the expected compensation. A valuation account for the impairment of specific assets is established rather than a liability because the net realizability of the assets affected has decreased. At the time the expropriation occurs, the related assets are written off against the allowance account. The assets are not yet written off since the assets still have not been expropriated.

3. No entry required.

No loss contingency needs to be recorded nor is any disclosure required, because even though Polska’s chemical product division is uninsurable due to high risk and has sustained repeated losses in the past, as of the Dec. 31, 2012 balance sheet date, there have been no casualties resulting in losses from either assets being impaired or liabilities being incurred.