Intermediate Accounting Volume 2 (Canadian) 8th edition Beechy Test Bank

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Intermediate Accounting Volume II 8th Edition by Beechy Ch12

TRUE/FALSE - Write 'T' if the statement is true and 'F' if the statement is false.

1) Conceptually, liabilities constitute a present obligation as a result of a past event and entail an expected future sacrifice of assets or services.

- ⦾ true
- ⦾ false

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-01 Define and distinguish between financial and non-financial liabilities and
Topic : 12-01 Liability Definition and Categories
Bloom's : Remember
Difficulty : Easy

2) Under ASPE, only legal obligations are recognized.

- ⦾ true
- ⦾ false

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-01 Define and distinguish between financial and non-financial liabilities and
Bloom's : Remember
Difficulty : Easy
Learning Objective : 12-08 Classify liabilities as current or long-term.
Topic : 12-67 Looking Forward

3) A reasonable expectation on the part of a company's stakeholders arising from a company's past practices or behaviour may constitute a constructive obligation in certain instances.

- ⦾ true
- ⦾ false

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-01 Define and distinguish between financial and non-financial liabilities and
Bloom's : Remember
Difficulty : Easy
Topic : 12-03 Constructive Obligations

4) A contingency may become a provision if the likelihood of the contingent event greatly increases.

- ⊙ true
- ⊙ false

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-01 Define and distinguish between financial and non-financial liabilities and
Bloom's : Remember
Difficulty : Easy
Learning Objective : 12-05 Apply the appropriate measurement concepts to account for provisions.
Topic : 12-32 Contingency

5) Under IFRS, most financial liabilities are valued at fair value.

- ⊙ true
- ⊙ false

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-01 Define and distinguish between financial and non-financial liabilities and
Bloom's : Remember
Difficulty : Easy
Topic : 12-04 Categories of Liabilities
Topic : 12-05 Categories of Financial Liabilities

6) An improvement to a company's credit rating under IFRS will lead to a reduction in the carrying amount of any financial liabilities and a gain being reported in OCI.

- ⊙ true
- ⊙ false

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-01 Define and distinguish between financial and non-financial liabilities and
Bloom's : Remember
Difficulty : Easy
Topic : 12-05 Categories of Financial Liabilities

7) Loan guarantees are only recorded if they are likely to be paid.

- ⦾ true
- ⦾ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 12-02 Account for common financial liabilities.
Topic : 12-12 Loan Guarantees

8) Accrued liabilities made due to routine operating expenses are not normally discounted.

- ⦾ true
- ⦾ false

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-01 Define and distinguish between financial and non-financial liabilities and
Bloom's : Remember
Difficulty : Easy
Learning Objective : 12-02 Account for common financial liabilities.
Topic : 12-07 Discounting
Topic : 12-14 Monetary Accrued Liabilities

9) For a small population, the best estimate for the amount of a provision that must be recognized is the expected value of the possible outcomes.

- ⦾ true
- ⦾ false

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-01 Define and distinguish between financial and non-financial liabilities and
Bloom's : Remember
Difficulty : Easy
Learning Objective : 12-02 Account for common financial liabilities.
Topic : 12-07 Discounting
Topic : 12-14 Monetary Accrued Liabilities

10) Under IFRS, provisions are always recorded at their expected value.

◎ true
◎ false

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-01 Define and distinguish between financial and non-financial liabilities and
Bloom's : Remember
Difficulty : Easy
Topic : 12-07 Discounting

11) For a large population, the best estimate for the amount of a provision that must be recognized is the most likely outcome with respect to the expected value and cumulative probabilities.

◎ true
◎ false

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-01 Define and distinguish between financial and non-financial liabilities and
Bloom's : Remember
Difficulty : Easy
Topic : 12-07 Discounting

12) Under ASPE, contingent liabilities which are more likely than not, are accrued at the lowest end of the range.

◎ true
◎ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Topic : 12-67 Looking Forward
Learning Objective : 12-10 Explain how liabilities are treated in a statement of cash flows.

13) Contingent assets may be recorded under ASPE but not under IFRS.

◎ true
◎ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Topic : 12-67 Looking Forward
Learning Objective : 12-05 Apply the appropriate measurement concepts to account for provisions.
Learning Objective : 12-10 Explain how liabilities are treated in a statement of cash flows.
Topic : 12-33 Contingent Assets

14) Executory contracts seldom require a journal entry, while onerous contracts do.

⦾ true
⦾ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 12-05 Apply the appropriate measurement concepts to account for provisions.
Topic : 12-38 Executory Contracts

15) Discounting is not required when the time value of money is immaterial or if the amount and timing of cash flows is highly uncertain.

⦾ true
⦾ false

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-01 Define and distinguish between financial and non-financial liabilities and
Bloom's : Remember
Difficulty : Easy
Topic : 12-07 Discounting

16) Financial liabilities are initially recognized at fair value and at cost, amortized cost or fair value post-acquisition.

⦾ true
⦾ false

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-01 Define and distinguish between financial and non-financial liabilities and
Bloom's : Remember
Difficulty : Easy
Topic : 12-05 Categories of Financial Liabilities
Learning Objective : 12-02 Account for common financial liabilities.

17) A company decides to relocate a group from a discontinued business segment to a division with ongoing operations. The expenses incurred in doing so would qualify as a restructuring charge.

- ⊙ true
- ⊙ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 12-05 Apply the appropriate measurement concepts to account for provisions.
Topic : 12-35 Examples of Provisions

18) Under the warranty expense approach, there should be no income statement effects for warranty repairs performed after the year of sale (assuming that accrued warranty expenses and expenditures equal one another).

- ⊙ true
- ⊙ false

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-01 Define and distinguish between financial and non-financial liabilities and
Bloom's : Remember
Difficulty : Easy
Learning Objective : 12-05 Apply the appropriate measurement concepts to account for provisions.
Topic : 12-41 Warranty

19) Under the warranty revenue approach, there should be no income statement effects for warranty repairs performed after the year of sale (assuming that accrued warranty expenses and expenditures equal one another).

- true
- false

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-01 Define and distinguish between financial and non-financial liabilities and
Bloom's : Remember
Difficulty : Easy
Learning Objective : 12-05 Apply the appropriate measurement concepts to account for provisions.
Topic : 12-41 Warranty

20) An onerous contract is one where the unavoidable costs of meeting the contract may or may not exceed the benefits derived from the contract.

- true
- false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 12-05 Apply the appropriate measurement concepts to account for provisions.
Topic : 12-39 Onerous Contracts

21) A lawsuit in progress wherein the defendant will probably be found guilty would likely be accounted for as a provision.

- true
- false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 12-05 Apply the appropriate measurement concepts to account for provisions.
Learning Objective : 12-04 Distinguish between a financial liability, a contingency, and a provision.
Topic : 12-36 Lawsuits

22) Warranties provisions may arise from legal or constructive obligations.

⦾ true
⦾ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 12-05 Apply the appropriate measurement concepts to account for provisions.
Topic : 12-41 Warranty
Learning Objective : 12-04 Distinguish between a financial liability, a contingency, and a provision.

23) Once a company has formally decided to restructure its operations, a provision must be made for the restructuring.

⦾ true
⦾ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 12-05 Apply the appropriate measurement concepts to account for provisions.
Topic : 12-36 Lawsuits

24) Self-insurance costs for expected losses must never be provided for.

⦾ true
⦾ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 12-04 Distinguish between a financial liability, a contingency, and a provision.
Topic : 12-46 Self-Insurance

25) Current liabilities are usually discounted.

⦾ true
⦾ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 12-03 Account for foreign currency payables.
Topic : 12-06 Measurement of Other Financial Liabilities

26) A decline in value of a company's reporting currency relative to the foreign currency in which it has payables will result in a foreign exchange gain on the reporting company's books.

⦾ true
⦾ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 12-03 Account for foreign currency payables.
Topic : 12-21 Income Tax Payable

27) Adjustments to fair value relating to FVTPL liabilities will always flow through earnings.

⦾ true
⦾ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Topic : 12-04 Categories of Liabilities
Learning Objective : 12-04 Distinguish between a financial liability, a contingency, and a provision.

28) Loan guarantees must be provided for; the amount of the provision is the probability of payout multiplied by the fair value of the loan guarantee.

⦾ true
⦾ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 12-04 Distinguish between a financial liability, a contingency, and a provision.
Topic : 12-10 Notes Payable

29) A company may reclassify a current financial liability to a long-term one only if there is a contractual agreement in place by the reporting date to replace the financing.

⊙ true
⊙ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 12-02 Account for common financial liabilities.
Learning Objective : 12-03 Account for foreign currency payables.
Learning Objective : 12-07 DAIS—Interpret graphs and/or identify requirements for information s
Topic : 12-59 Classification of Notes Payable

30) Debt issue costs may be expensed or included in the cost of the debt.

⊙ true
⊙ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Topic : 12-04 Categories of Liabilities
Learning Objective : 12-02 Account for common financial liabilities.
Learning Objective : 12-03 Account for foreign currency payables.

31) Normal business risks that are insured must be provided for.

⊙ true
⊙ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 12-04 Distinguish between a financial liability, a contingency, and a provision.
Topic : 12-46 Self-Insurance

32) An administrative fee pertaining to an unsuccessful loan application is to be immediately expensed.

- ⦾ true
- ⦾ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Topic : 12-04 Categories of Liabilities
Learning Objective : 12-03 Account for foreign currency payables.

33) Capitalization of borrowing costs on qualifying assets will continue even if work on the asset has temporarily ceased.

- ⦾ true
- ⦾ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 12-05 Apply the appropriate measurement concepts to account for provisions.
Learning Objective : 12-04 Distinguish between a financial liability, a contingency, and a provision.
Topic : 12-29 Summary

34) Accounts payable should include only obligations directly related to the primary and continuing operations of an entity.

- ⦾ true
- ⦾ false

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-01 Define and distinguish between financial and non-financial liabilities and
Bloom's : Remember
Difficulty : Easy
Learning Objective : 12-02 Account for common financial liabilities.
Topic : 12-08 Common Financial Liabilities

35) Capitalization of borrowing costs on qualifying assets is mandatory under both IFRS and ASPE.

⊙ true
⊙ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 12-08 Classify liabilities as current or long-term.
Learning Objective : 12-06 Account for liabilities when discounting and remeasurement is involved.
Topic : 12-65 Statement of Cash Flows

36) Under IFRS, a loss contingency must be credited to a liability account only if the occurrence of the contingent event is probable and if the amount of loss can be reasonably estimated.

⊙ true
⊙ false

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-01 Define and distinguish between financial and non-financial liabilities and
Bloom's : Remember
Difficulty : Easy
Learning Objective : 12-08 Classify liabilities as current or long-term.
Learning Objective : 12-04 Distinguish between a financial liability, a contingency, and a provision.
Topic : 12-29 Summary

37) A gain contingency will usually not be recorded in the accounts and reported in the financial statements even though its occurrence is probable.

⦾ true
⦾ false

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-01 Define and distinguish between financial and non-financial liabilities and
Bloom's : Remember
Difficulty : Easy
Learning Objective : 12-04 Distinguish between a financial liability, a contingency, and a provision.
Topic : 12-29 Summary

38) Under ASPE, disclosure in the footnotes to the financial statements is the only way to properly report contingent losses.

⦾ true
⦾ false

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-01 Define and distinguish between financial and non-financial liabilities and
Bloom's : Remember
Difficulty : Easy
Topic : 12-67 Looking Forward
Learning Objective : 12-10 Explain how liabilities are treated in a statement of cash flows.
Learning Objective : 12-04 Distinguish between a financial liability, a contingency, and a provision.

39) Under IFRS, a continuity schedule must be provided for both provisions and contingencies.

⦾ true
⦾ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 12-05 Apply the appropriate measurement concepts to account for provisions.
Topic : 12-32 Contingency
Topic : 12-35 Examples of Provisions
Learning Objective : 12-04 Distinguish between a financial liability, a contingency, and a provision.

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MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

40) A brewing company operating in an Ontario city experiencing water shortages received its water bill for December 2023, on December 31, 2023. The bill ($8,000) represents the cost of water used in December to make its product. The company will not publish the 2023 financial statements until February 2024. Therefore, the adjusting entry as of December 31, 2023 includes which of the following?

A) cr. utilities payable $8,000
B) cr. cash $8,000
C) cr. utilities expense $8,000
D) no adjusting entry needed because the bill will not be paid until January 2024

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-01 Define and distinguish between financial and non-financial liabilities and
Learning Objective : 12-05 Apply the appropriate measurement concepts to account for provisions.
Topic : 12-42 Cost-Deferral—Example
Topic : 12-44 Restoration and Environmental Obligations
Bloom's : Apply
Difficulty : Medium

41) A short-term note payable may include all of the following except:

A) Trade notes payable.
B) Non trade notes payable.
C) A current portion of a long-term liability.
D) Unearned revenue.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 12-02 Account for common financial liabilities.
Topic : 12-10 Notes Payable
Difficulty : Medium

42) Which of the following statements is correct?

A) Under IFRS, contingencies may be accrued, but not under ASPE.
B) Litigation for which the company will probably be found guilty would normally be accrued as a provision.
C) Under IFRS, content gains should be recognized if they are reasonably certain to occur.
D) A contingency is more likely to require an accrual than a provision.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-01 Define and distinguish between financial and non-financial liabilities and
Bloom's : Remember
Learning Objective : 12-05 Apply the appropriate measurement concepts to account for provisions.
Topic : 12-32 Contingency
Difficulty : Medium

43) A firm sold $100,000 worth of goods during 2024. The firm extends warranty coverage on these goods. Historically, warranty costs have averaged 2% of total sales. During 2024, the firm incurred $1,000 to service goods sold in 2023 and $200 to service goods sold in 2024. What is warranty expense for 2024?

A) $200
B) $1,200
C) $2,000
D) $3,200

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-01 Define and distinguish between financial and non-financial liabilities and
Learning Objective : 12-05 Apply the appropriate measurement concepts to account for provisions.
Bloom's : Apply
Difficulty : Medium
Topic : 12-43 Warranty as a Constructive Liability

44) You are an investor and have just purchased a bond on July 1 which pays interest every March 1 and September 1. When you receive your first interest cheque, you will receive and have earned how many months interest?

	Received	Earned
1	6	6
2	6	2
3	2	2
4	4	4
5	6	4

A) Choice 1
B) Choice 2
C) Choice 3
D) Choice 4
E) Choice 5

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-08 Classify liabilities as current or long-term.
Learning Objective : 12-02 Account for common financial liabilities.
Topic : 12-59 Classification of Notes Payable
Bloom's : Apply
Difficulty : Medium

45) On November 7, 2024 local residents sued Brimley Corporation for excess chemical emissions that caused some of them to seek medical attention. The total lawsuit is $8,000,000. Brimley Corporation's lawyers believe that the lawsuit will be successful and that the amount to be paid to the residents will be $4,000,000. On its December 31, 2024 financial statements Brimley should:

A) Accrue a provision loss of $8,000,000 with no financial statement disclosure necessary.
B) Accrue a provision loss of $4,000,000 and note disclose.
C) Do nothing as the lawsuit has not yet ended.
D) Simply disclose the details regarding the lawsuit in a note.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-01 Define and distinguish between financial and non-financial liabilities and
Learning Objective : 12-05 Apply the appropriate measurement concepts to account for provisions.
Learning Objective : 12-04 Distinguish between a financial liability, a contingency, and a provision.
Topic : 12-36 Lawsuits
Bloom's : Apply
Difficulty : Medium

46) ABC Inc. has 50 pending lawsuits for which it may be found liable. The expected value (sum of the probabilities of the outcomes multiplied by their respective payouts) amounts to $100,000. However, the company's controller believes that the most likely outcome will be a payout of $120,000. Which of the following statements pertaining to the accrual of the provision is correct?

A) There is a large population of lawsuits, so a provision of $100,000 must be accrued.
B) There is a large population of lawsuits, so a provision of $120,000 must be accrued.
C) There is a small population of lawsuits, so a provision of $100,000 must be accrued.
D) There is a small population of lawsuits, so a provision of $120,000 must be accrued.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-05 Apply the appropriate measurement concepts to account for provisions.
Learning Objective : 12-04 Distinguish between a financial liability, a contingency, and a provision.
Topic : 12-36 Lawsuits
Bloom's : Apply
Difficulty : Medium

47) Which one of the following items is not a liability?

A) Accrued estimated warranty costs
B) Dividends payable in shares
C) Advances from customers on contracts
D) The portion of long-term debt due within one year

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-01 Define and distinguish between financial and non-financial liabilities and
Topic : 12-01 Liability Definition and Categories
Bloom's : Remember
Difficulty : Medium

48) A company has commenced work on a non-cancellable fixed price construction contract in the amount of $6 million. Costs of $4 million have been incurred to date, and it is expected that $3.2 million in additional costs will have to be incurred to complete the contract. The company adheres to IFRS. Which of the following statements with respect to the contract are correct?

A) There is a constructive obligation to finish the contract.
B) The company will have recognized $3 million in profit on the contract to date.
C) The company has a constructive obligation to accrue a loss of $1.2 million plus any previously recognized profit.
D) This is an onerous contract, so the company must accrue a loss of $1.2 million plus any previously recognized profit.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-01 Define and distinguish between financial and non-financial liabilities and
Bloom's : Remember
Learning Objective : 12-05 Apply the appropriate measurement concepts to account for provisions.
Topic : 12-35 Examples of Provisions
Learning Objective : 12-04 Distinguish between a financial liability, a contingency, and a provision.
Difficulty : Medium

49) Constructive obligations may arise from:

A) Accrued Liabilities resulting from operations.
B) Warranty obligations.
C) Notes Payable.
D) Unearned Revenues.

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Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-01 Define and distinguish between financial and non-financial liabilities and
Bloom's : Remember
Topic : 12-03 Constructive Obligations
Difficulty : Medium

50) Jake Co. includes three coupons in each bag of dog food it sells. In return for fifteen coupons, customers receive a dog leash. The leashes cost Jones $2.00 each. Jake estimates that 50% of the coupons will be redeemed. Data for 2024 and 2025 are as follows:

	2024	**2025**
Bags of dog food sold	200,000	300,000
Leashes purchased	50,000	50,000
Coupons redeemed	100,000	50,000

The total estimated liability for leashes for Jake Co. as at December 31, 2025 is:

A) $100,000
B) $20,000.
C) $160,000.
D) $50,000.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-01 Define and distinguish between financial and non-financial liabilities and
Bloom's : Remember
Learning Objective : 12-05 Apply the appropriate measurement concepts to account for provisions.
Difficulty : Medium
Topic : 12-45 Coupons

51) Long-term obligations (i.e., debts) that is callable for early payment:

A) Must continue to be classified as a long-term liability by the debtor, if a provision of the debt covenant has been violated.

B) Must continue to be classified as a long-term liability in all situations.

C) Must be reported as current liabilities by the debtor if callable on demand.

D) Can be reported as current liabilities by the debtor only if callable because a provision of the debt covenant has been violated.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 12-08 Classify liabilities as current or long-term.
Difficulty : Medium
Topic : 12-60 Short-Term Obligations with an Arrangement for Refinancing

52) A company had sales of $1 million. Coupons in the amount of $1 per $10 in sales were given to paying customers. History has shown that 50% of all coupons are redeemed. Which of the following statements is correct?

A) A provision for $50,000 must be recognized.

B) A provision for $100,000 must be recognized.

C) A provision for $1 million must be recognized.

D) No provision is necessary.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-01 Define and distinguish between financial and non-financial liabilities and
Learning Objective : 12-05 Apply the appropriate measurement concepts to account for provisions.
Learning Objective : 12-04 Distinguish between a financial liability, a contingency, and a provision.
Bloom's : Apply
Difficulty : Medium
Topic : 12-45 Coupons

53) By law, a fleet of aircraft must be subject to a major overhaul every 5 years as part of its scheduled maintenance program. Which of the following statements is correct?

A) An accrual should be made in each of the 5 years preceding the overhaul.
B) The costs of the overhaul should be expensed as incurred.
C) The cost of the overhaul should be deferred and amortized.
D) The estimated cost of the overhaul should be disclosed as part of a continuity schedule in the notes to the financial statements.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-01 Define and distinguish between financial and non-financial liabilities and
Bloom's : Remember
Learning Objective : 12-05 Apply the appropriate measurement concepts to account for provisions.
Learning Objective : 12-04 Distinguish between a financial liability, a contingency, and a provision.
Difficulty : Medium
Topic : 12-27 Non-Financial Liabilities: Provisions
Topic : 12-28 Measurement of a Provision

54) Which of the following statements is correct?

A) For companies that are self-insured, a provision must be established for events taking place prior to the reporting period if known.
B) There is no guidance for self-insurance under IFRS.
C) Contingent assets are only recorded when it is virtually certain that the benefits relating to the contingent assets will be received.
D) Contingent assets are only recorded when it is reasonably certain that the benefits relating to the contingent assets will be received.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 12-05 Apply the appropriate measurement concepts to account for provisions.
Topic : 12-32 Contingency
Learning Objective : 12-04 Distinguish between a financial liability, a contingency, and a provision.
Difficulty : Medium

55) Information obtained prior to the issuance of the current period's financial statements of KG Company indicates that it is probable that, at the date of the financial statements, a liability will be incurred for obligations related to product warranties on products sold during the current period. During the past three years, product warranty costs have been approximately 1 1/2 percent of annual sales revenue. An estimated loss contingency should be:

A) Neither accrued nor disclosed in the financial statements.
B) Recognized as an appropriation of retained earnings.
C) Accrued in the accounts and reported in the financial statements.
D) Disclosed in the financial statements but not accrued.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 12-05 Apply the appropriate measurement concepts to account for provisions.
Topic : 12-32 Contingency
Learning Objective : 12-04 Distinguish between a financial liability, a contingency, and a provision.
Difficulty : Medium

56) Contingent liabilities will or will not become actual liabilities depending on:

A) Whether they are probable and estimable
B) The degree of uncertainty
C) The present condition suggesting a liability
D) The outcome of a future event

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 12-05 Apply the appropriate measurement concepts to account for provisions.
Topic : 12-32 Contingency
Learning Objective : 12-04 Distinguish between a financial liability, a contingency, and a provision.
Difficulty : Medium

57) Under IFRS, which of the following will only require only a note disclosure as a contingency?

A) Cash discounts given for early payment by customers; almost always taken
B) Remote chance of loss from a lawsuit in process
C) Probable claim for an income tax refund
D) Loss from an investment in equity securities that is certain

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 12-05 Apply the appropriate measurement concepts to account for provisions.
Topic : 12-32 Contingency
Learning Objective : 12-04 Distinguish between a financial liability, a contingency, and a provision.
Difficulty : Medium

58) Which of the following contingencies should be accrued in the accounts and reported in the financial statements?

A) The estimated expenses of a one-year product warranty.
B) The company is forcefully contesting a personal injury suit and a loss is possible and reasonably estimable.
C) An accommodation endorsement involving a remote loss.
D) It is probable that the company will receive $50,000 in settlement of a lawsuit.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 12-05 Apply the appropriate measurement concepts to account for provisions.
Topic : 12-32 Contingency
Learning Objective : 12-04 Distinguish between a financial liability, a contingency, and a provision.
Difficulty : Medium

59) KR Corporation was involved in a lawsuit with the Government alleging inadequate air pollution control facilities at its Glowworm plant site during 2021. At December 31, 2024, it appeared probable the Government would settle for approximately $150,000. This event should be recorded (i.e., recognized) in 2024 as a(n):

A) Loss on the lawsuit (operating expense).
B) Unusual gain.
C) Prior period adjustment.
D) Unusual loss.
E) Disclosure of contingency loss only in a note.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 12-05 Apply the appropriate measurement concepts to account for provisions.
Learning Objective : 12-04 Distinguish between a financial liability, a contingency, and a provision.
Topic : 12-36 Lawsuits
Difficulty : Medium

60) Under what conditions is an employer required to accrue a liability for sick pay?

A) Sick pay benefits are reasonably estimable.
B) Sick pay benefits are non-vested and reasonably estimable.
C) Sick pay benefits accumulate.
D) Sick pay benefits are vested.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 12-05 Apply the appropriate measurement concepts to account for provisions.
Topic : 12-47 Compensated-Absence Liabilities

61) On January 1, 2024, DWW borrowed $400,000 cash and signed a one-year, 12 percent interest-bearing note payable. Assuming a 40 percent average income tax rate for DWW Corporation, the net effective interest rate on this note was:

A) 4.8 percent.
B) 6.0 percent.
C) 7.2 percent.
D) 12.0 percent.

Question Details
Accessibility : Keyboard Navigation
Difficulty : Easy
Learning Objective : 12-06 Account for liabilities when discounting and remeasurement is involved.
Bloom's : Apply
Topic : 12-52 Example 2: Note Payable with Different Market and Stated Rate

62) XYZ borrowed $60,000 for one year and signed an 18 percent, interest-bearing note payable. Assuming XYZ has an income tax rate of 45 percent, the net effective rate was:

A) 8.1 percent.
B) 9.9 percent.
C) 11.7 percent.
D) 18 percent.

Question Details
Accessibility : Keyboard Navigation
Difficulty : Easy
Learning Objective : 12-06 Account for liabilities when discounting and remeasurement is involved.
Bloom's : Apply
Topic : 12-52 Example 2: Note Payable with Different Market and Stated Rate

63) On September 1, 2022, Company B signed a $7,392, two-year non-interest-bearing note payable in full on August 31, 2024. Company B received $6,000 cash. What was the yield or effective rate of interest?

A) 11 percent
B) 14 percent
C) 18 percent
D) 23 percent

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-06 Account for liabilities when discounting and remeasurement is involved.
Bloom's : Apply
Difficulty : Medium
Topic : 12-51 Example 1: No-Interest Note Payable

64) VCR Company owed a $73,311 debt due on January 1, 2022. An agreement was reached to pay it off in three equal annual payments of $30,000 each, starting on December 31, 2022. The interest rate was 11 percent. The balance in the liability account of VCR Company on January 1, 2024 is (round annual payment to nearest $1):

A) $27,026
B) $51,875
C) $73,311
D) $90,000

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-06 Account for liabilities when discounting and remeasurement is involved.
Bloom's : Apply
Difficulty : Medium
Topic : 12-52 Example 2: Note Payable with Different Market and Stated Rate

65) XY Company owed a $45,489 due on January 1, 2025. An agreement was reached to pay it off in five equal annual payments, starting on December 31, 2025. The interest rate was 10 percent. The total amount of interest paid under the terms of the agreement was (round annual payment to nearest $1):

A) $25,000
B) $22,745
C) $14,511
D) $6,000

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-06 Account for liabilities when discounting and remeasurement is involved.
Bloom's : Apply
Difficulty : Medium
Topic : 12-52 Example 2: Note Payable with Different Market and Stated Rate

66) A firm sells products covered by a three-year warranty. From the past experience of the other firms in the industry, the firm expects to incur warranty costs equal to 1% of sales. Firm sales were $40,000 and $50,000 in 2023 and 2024 respectively. In 2024, the firm spent $200 to repair goods sold in 2023, and $300 to repair goods sold in 2024. The firm received no warranty servicing demands from customers in 2023, the firm's first year of operations. What is the balance in the warranty liability account on Dec 31, 2024?

A) $400
B) $500
C) $300
D) $0

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-05 Apply the appropriate measurement concepts to account for provisions.
Bloom's : Apply
Difficulty : Medium
Topic : 12-43 Warranty as a Constructive Liability

67) On January 1, 2024, JG purchased a machine and gave a $30,000 three-year, 8% note. The market or "going" interest rate was 12%. The annual interest payments are to be paid on each December 31. On January 1, 2024, JG should record the net liability amount determined as follows:

A) Compute the present value of its face amount and the three $2,400 interest amounts by using a discount rate of 8%.

B) Compute the present value of its face amount and the three $2,400 interest amounts by using a discount rate of 12%.

C) Use its face amount, $30,000 plus the $7,200 interest.

D) Use its face amount, $30,000 minus $7,200 interest.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-05 Apply the appropriate measurement concepts to account for provisions.
Bloom's : Apply
Difficulty : Medium
Topic : 12-43 Warranty as a Constructive Liability

68) Ryan Company borrow US $45,000 when the exchange rate for US $1.00 is Cdn. $1.46. When the debt was repaid the exchange rate changes to US $1.00 = Cdn. $1.38. Ryan Company records the amount on the date of exchange as:

A) A foreign exchange loss of $3,600.

B) A foreign exchange gain of $3,600.

C) A foreign exchange gain of $62,100.

D) A foreign exchange loss of $62,100.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-01 Define and distinguish between financial and non-financial liabilities and
Learning Objective : 12-03 Account for foreign currency payables.
Bloom's : Apply
Difficulty : Medium
Topic : 12-23 Foreign Currency Payables

69) Juice Magazine sold 4,500 annual subscriptions at $80 each on August 1. What is the balance in the unearned revenue account for the year ending December 31?

A) $0
B) $150,000
C) $210,000
D) $360,000

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-01 Define and distinguish between financial and non-financial liabilities and
Learning Objective : 12-02 Account for common financial liabilities.
Bloom's : Apply
Difficulty : Medium
Topic : 12-15 Advances and Returnable Deposits

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

70) A company has been sued for damages as a result of illness caused to local residents due to the emission of highly toxic chemicals from its plant. The company's legal firm advises that it is probable that the company will lose the suit and that it probably will result in a judgment of $2 million to $10 million in damages. However, the legal firm believes that the most probable amount of the loss will be $6 million, and that the suit will be terminated about three years hence. The company has no other lawsuits pending.

(a) Should the company disclose this event in the year the suit was filed? (check one) _____ No; _____ Note only; _____ A loss in the income statement.
(b) If a loss should be reported, give the journal entry required:

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-05 Apply the appropriate measurement concepts to account for provisions.
Learning Objective : 12-04 Distinguish between a financial liability, a contingency, and a provision.
Topic : 12-36 Lawsuits
Bloom's : Apply
Difficulty : Hard

Intermediate Accounting Volume II 8th Edition by Beechy Ch12

71) On January 1, 2022, a company purchased a machine that had a list price of $23,500. The purchase terms agreed upon were: cash down payment $12,000 plus a 15% note payable of $9,132 (its present value). The note is payable in three equal annual instalments (interest plus principal) on each December 31. Round to the nearest dollar.

Required:

(a) Give the entry to record the acquisition of the machine.
(b) Give the adjusting entry required on September 30, 2023, for interest assuming this is the end of the accounting period.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-03 Account for foreign currency payables.
Learning Objective : 12-06 Account for liabilities when discounting and remeasurement is involved.
Bloom's : Apply
Topic : 12-52 Example 2: Note Payable with Different Market and Stated Rate
Topic : 12-51 Example 1: No-Interest Note Payable
Difficulty : Hard

72) On January 1, 2024, a corporation purchased a machine (10 year estimated useful life; no residual value; straight-line method) by paying cash $1,500 and signing a note payable with a face amount of $4,500, 8% interest payable each December 31. The maturity date is December 31, 2026. The going market rate of interest was 10%. Give all required entry (entries) at each of the following dates:

January 1, 2024:

December 31, 2024:

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-03 Account for foreign currency payables.
Learning Objective : 12-06 Account for liabilities when discounting and remeasurement is involved.
Bloom's : Apply
Topic : 12-52 Example 2: Note Payable with Different Market and Stated Rate
Difficulty : Hard

73) On September 1, 2024, a company purchased a machine and paid for it by signing a two-year noninterest-bearing note, face $4,000. The note is payable August 31, 2026. The going rate of interest was 18% per year. The accounting period ends December 31.

(a) Compute the cost of the machine.
(b) Give all appropriate entries throughout the term of the note.

Use the net method.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-03 Account for foreign currency payables.
Learning Objective : 12-06 Account for liabilities when discounting and remeasurement is involved.
Bloom's : Apply
Topic : 12-51 Example 1: No-Interest Note Payable
Difficulty : Hard

74) On September 1, 2024, a company signed a $6,540, one-year, non-interest-bearing note payable and received $6,000 cash.

(a) What was the imputed rate of interest? ________________%.
(b) Give the entry required at September 1, 2024, to record the receipt of the cash (record on net basis).
(c) Give the adjusting entry required at the end of the accounting year, December 31, 2024.
(d) Give the entry required on the due date, August 31, 2025, assuming no reversing entries were made.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-03 Account for foreign currency payables.
Learning Objective : 12-06 Account for liabilities when discounting and remeasurement is involved.
Bloom's : Apply
Topic : 12-51 Example 1: No-Interest Note Payable
Difficulty : Hard

75) Quality 9000 International Inc., which began operations in 2024, sells 20,000 units of its product each year under the following warranty: defective units will be fixed free of charge during the calendar year of purchase and the next two calendar years. (This means it is best to buy from this company early in the year.) Only 1% of units sold have required warranty service in the past. The average cost has been $200 per unit for servicing. Units require service only once and the likelihood of a unit requiring service is the same during each year in the warranty period. What is the balance in the warranty liability account at December 31, 2024?

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-01 Define and distinguish between financial and non-financial liabilities and
Learning Objective : 12-05 Apply the appropriate measurement concepts to account for provisions.
Topic : 12-41 Warranty
Learning Objective : 12-04 Distinguish between a financial liability, a contingency, and a provision.
Bloom's : Apply
Difficulty : Hard

76) A firm sells a remarkable product, which serves many household purposes. The firm is confident about its product and is so anxious to sell a large number of units that it grants a 3-year warranty. The warranty agreement specifies that any malfunction or other problem will be fixed at no cost to the customer, unless the customer has abused the product. Based on experience with other household products it has sold in the past, 3% of total units sold will require service over the warranty period at an average cost of $200 per unit. The following information relates to the first two years of the product's life:

	Year 1	**Year 2**
Unit sales	20,000	5,000
Actual warranty costs incurred	$35,000	$80,000

What is the balance of the warranty liability account at January 1, Year 3? Assume that the company did not revise its estimate of future warranty claims frequency.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-01 Define and distinguish between financial and non-financial liabilities and
Learning Objective : 12-05 Apply the appropriate measurement concepts to account for provisions.
Topic : 12-41 Warranty
Learning Objective : 12-04 Distinguish between a financial liability, a contingency, and a provision.
Bloom's : Apply
Difficulty : Hard

Intermediate Accounting Volume II 8th Edition by Beechy Ch12

77) At December 31, 2022, ABC Company has the following three separate lawsuits pending against it: Suit A-Plaintiffs seek damages of $40,000; Suit B-Plaintiff seeks damages of $200,000; and Suit C-Plaintiff seeks damages of $20,000.
ABC management and legal counsel have made the assessments indicated below. For each suit, taking into account the assessment, you are to (a) give the accrual entry if it is required (if not, state why) and (b) indicate whether a disclosure note is required and explain the reason.
CASEA-Remote that ABC will lose the suit.

(a) Accrual entry:

(b) Disclosure note: _______ Yes ______ No. Explanation:

CASEB-Reasonably possible that ABC will lose; reasonable estimate of damages $4,000.

(a) Accrual entry:

(b) Disclosure note: ______ Yes _______ No. Explanation:

CASEC-Probable that ABC will lose; reasonable estimate of damages $10,000.

(a) Accrual entry:

(b) Disclosure note: ______ Yes ______ No. Explanation:

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-05 Apply the appropriate measurement concepts to account for provisions.
Learning Objective : 12-04 Distinguish between a financial liability, a contingency, and a provision.
Topic : 12-36 Lawsuits
Bloom's : Apply
Difficulty : Hard

78) BRIEFLY explain how the treatment of contingencies differs under IFRS and ASPE.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-05 Apply the appropriate measurement concepts to account for provisions.
Topic : 12-32 Contingency
Bloom's : Apply
Difficulty : Hard
Learning Objective : 12-09 Explain disclosure requirements for financial liabilities, provisions, and

79) On September 1, 2022, XYZ borrowed $100,000 on a 9%, two-year, note payable. Simple interest is payable on August 31, 2023 and 2024. XYZ's reporting year ends December 31 and the company does not use reversing entries for interest. The required entry on August 31, 2023, is:

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 12-03 Account for foreign currency payables.
Learning Objective : 12-06 Account for liabilities when discounting and remeasurement is involved.
Bloom's : Apply
Topic : 12-51 Example 1: No-Interest Note Payable
Difficulty : Hard

Intermediate Accounting Volume II 8th Edition by Beechy
Ch12
Answer Key

Test name: Ch12

1) TRUE
2) TRUE
3) TRUE
4) TRUE
5) FALSE
6) FALSE
7) TRUE
8) TRUE
9) FALSE
10) FALSE
11) FALSE
12) TRUE
13) TRUE
14) TRUE
15) TRUE
16) TRUE
17) FALSE
18) TRUE
19) FALSE
20) FALSE
21) TRUE
22) TRUE
23) FALSE
24) FALSE
25) FALSE

26) FALSE
27) TRUE
28) TRUE
29) TRUE
30) TRUE
31) FALSE
32) TRUE
33) FALSE
34) TRUE
35) FALSE
36) FALSE
37) TRUE
38) FALSE
39) FALSE
40) A
41) D
42) B
43) C
Warranty expense = $100,000 sales × 2% = $2,000.

44) B
45) B
46) A
47) B
48) D
49) B
50) A
[(200,000 + 300,000)* 3] / 15 × 50% × 2 = $100,000.

51) C
52) A

$1,0000,000 sales × 1/10 coupon rate × 50% redemption rate = $50,000 liability.

53) C
54) C
55) C
56) D
57) B
58) A
59) A
60) D
61) C
12% - 4.8% income tax expense (12% × 40% tax rate) = 7.2%.

62) B
18% - 8.1% income tax expense (18% × 45% tax rate) = 9.9%.

63) A
$6,000 × (1.11)2 = $7,392.

64) A
Amortization table:

Payment	Principle	Interest 11%	Balance
			$73,311
$30,000	$21,936	$8,064	$51,375
$30,000	$24,349	$5,651	$27,026
$30,000	$27,026	$2,974	$0

65) C
Using Excel, the annual payment is $12,000.
Total interest paid = ($12,000 × 5) - $45,489 = $14,511.

Amortization table:

Payment	Principle	Interest 10%	Balance

			$45,489
$12,000	$7,451	$8,064	$38,038
$12,000	$8,196	$5,651	$29,842
$12,000	$9,016	$2,974	$20,826
$12,000	$9,917	$2,083	$10,909
$12,000	$10,909	$1,091	$0
		Total $14,511	

66) A

Warranty liability balance Dec.31,2022 = $0.

Warranty liability balance Dec.31,2023 = $0 opening + $400 ($40,000 × 1%) - $200 = $200.

Warranty liability balance Dec.31,2024 = $200 opening + $500 ($50,000 × 1%) - $300 = $400.

67) B

68) B

$45,000 × ($1.46 - $1.38) = $3,600 gain.

69) B

Unearned revenue at December 31 = 4,500 × $80 × 7/12 (Jan-July of next year) = $210,000.

70) (a) a loss in the income statement.

(b)

Loss-pollution (lawsuit pending)	6,000,000	
Estimated liability pollution lawsuit		6,000,000

71) (a)

Machine	21,132	

Cash		12,000
Note payable		9,132

(b)

Interest expense	731	
Interest payable (975 × 9/12)		731

72) January 1, 2024:

Machine ($1,500 + $4,276)		$5,776
Cash (given)		1,500
Note payable (net)*		$4,276
*principal $4,500 × (PV1, 10%, 3)(0.75131)	$3,381	
*interest $360 × (PVA, 10%, 3)(2.48685)	895	
	$4,276	
December 31, 2000:		
Depreciation expense ($,5776/10 years)	578	
Accumulated depreciation		578
Interest expense ($4,276 × .10)	428	
Cash ($4,500 × .08)		360
Note payable ($428 - $360)		68

73) (a) $4,000 × (PV1, 18%, 2)(0.71818) = $2,873

(b) September 1, 2024

Machine	2,873	
Note payable		2,873

December 31, 2024

Interest expense ($2,873 × .18 × 4/12)	172	
Note payable		172

December 31, 2025

Interest expense	548*	
Note payable		548

August 31, 2026

Note payable ($2,873 + $172 + $548)	3,593	
Interest expense ($4,000 - $3,593)	407	
Cash		4,000
*$2,873 × .18 = $517 × 8/12 =		345
Or ($2,873 + $172) × .18		548
($2,873 + $517) × .18 = $610 × 4/12		203

74) (a) $6,540 - $6,000 = $540 ÷ $6,000 = 9%

(b) September 1, 2024

Cash	6,000	
Note payable		6,000

(c) December 31, 2024:

Interest expense ($540 × 4/12)	180	

Note payable		180

(d) August 31, 2025:

Note payable	6,000	
Interest expense ($540 × 8/12)	360	
Interest payable	180	
Cash		6,540

75) As of Dec. 31, 2024, the warranty for 2021, 2022 units is expired; Dec. 31, 2024 liability =

For 2023 sales: 1/3(20,000)($200)(.01)	= $13,333
For 2024 sales: 2/3(20,000)($200)(.01)	= 26,667
Total liability at Dec. 31, 2024	$40,000

76) January 1, Year 3 warranty liability balance = ((20,000 + 25,000) ×.03 × $200) - $35,000 - $80,000 = $155,000

77)**CASEA**

(a) None permitted for remote loss contingencies
(b) No (permissible but not required)

CASEB

(a) None
(b) Yes (required for reasonably possible loss contingencies)

CASEC

(a) Estimated loss-Damages from lawsuit	20,000	
Estimated liability-Damages from lawsuit		20,000

(b) Yes or no (Disclosure often required in addition to the journal entry) for full disclosure.

78) Contingencies may or may not be accrued under ASPE but are never accrued under IFRS. Both IFRS and ASPE require the disclosure of contingencies.

79) Please see the following table:

Interest Expense	6,000	
Interest Payable	3,000	
Cash		9,000