

CHAPTER 13

NON-FINANCIAL AND CURRENT LIABILITIES

SUMMARY OF QUESTION TYPES BY LEARNING OBJECTIVE AND LEVEL OF DIFFICULTY

Item	LO	LOD	Item	LO	LOD	Item	LO	LOD	Item	LO	LOD
Multiple Choice–Conceptual											
1.	2	E	10.	3	E	19.	4	H	28.	8	M
2.	2	E	11.	3	M	20.	4	M	29.	8	M
3.	2	M	12.	3	E	21.	4	M	30.	8	M
4.	3	E	13.	3	M	22.	5	M	31.	9	M
5.	3	M	14.	3	E	23.	5	E	32.	9	M
6.	3	M	15.	3,7	M	24.	5	M	33.	9	M
7.	3	E	16.	4	M	25.	7	M	34.	10	E
8.	3	M	17.	4	M	26.	7	M	35.	10	M
9.	3	M	18.	4	M	27.	7	M	36.	10	H
Multiple Choice–Computational											
37.	3	E	43.	3	H	49.	5	M	55.	7	M
38.	3	H	44.	3	M	50.	5	M	56.	8	M
39.	3	M	45.	4	M	51.	6	M	57.	8	M
40.	3	M	46.	4	M	52.	7	M	58.	9	M
41.	3	H	47.	4	H	53.	7	H	59.	9	E
42.	3	M	48.	4	H	54.	7	H	60.	9	H
Multiple Choice–CPA Adapted											
61.	3	M	64.	3	E	67.	5	M	70.	7	H
62.	3	M	65.	4	M	68.	6	M	71.	8	M
63.	3	M	66.	4	M	69.	6	M			
Exercises											
72.	3	M	74.	4	M	76.	5	M	78.	7	H
73.	3	M	75.	4	H	77.	7	H	79.	8	M
Problems											
80.	2	E	83.	4	M	86.	7	M			
81.	3	M	84.	5,8	H	87.	7	H			
82.	3	H	85.	7	H	88.	8	M			

Note: E = Easy M = Medium H = Hard

SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type
Learning Objective 2											
1.	MC	2.	MC	3.	MC	80.	Pr				
Learning Objective 3											
4.	MC	9.	MC	14.	MC	40.	MC	61.	MC	73.	Ex
5.	MC	10.	MC	15.	MC	41.	MC	62.	MC	81.	Pr
6.	MC	11.	MC	37.	MC	42.	MC	63.	MC	82.	Pr
7.	MC	12.	MC	38.	MC	43.	MC	64.	MC		
8.	MC	13.	MC	39.	MC	44.	MC	72.	Ex		
Learning Objective 4											
16.	MC	19.	MC	45.	MC	48.	MC	74.	Ex		
17.	MC	20.	MC	46.	MC	65.	MC	75.	Ex		
18.	MC	21.	MC	47.	MC	66.	MC	83.	Pr		
Learning Objective 5											
22.	MC	24.	MC	50.	MC	76.	Ex				
23.	MC	49.	MC	67.	MC	84.	Pr				
Learning Objective 6											
51.	MC	68.	MC	69.	MC						
Learning Objective 7											
15.	MC	27.	MC	54.	MC	77.	Ex	86.	Pr		
25.	MC	52.	MC	55.	MC	78.	Ex	87.	Pr		
26.	MC	53.	MC	70.	MC	85.	Pr				
Learning Objective 8											
28.	MC	30.	MC	57.	MC	79.	Ex	88.	Pr		
29.	MC	56.	MC	71.	MC	84.	Pr				
Learning Objective 9											
31.	MC	32.	MC	33.	MC	58.	MC	59.	MC	60.	MC
Learning Objective 10											
34.	MC	35.	MC	36.	MC						

Note: MC = Multiple Choice Ex = Exercise Pr = Problem

CHAPTER STUDY OBJECTIVES

1. Understand the importance of non-financial and current liabilities from a business perspective. Cash flow management is a key control factor for most businesses. Taking advantage of supplier discounts for prompt payment is one step companies can take. Control of expenses and related accounts payable can improve the efficiency of a business, and can be particularly important during economic downturns.

2. Define liabilities, distinguish financial liabilities from other liabilities, and identify how they are measured. Liabilities are defined as present obligations of an entity arising from past transactions or events that are settled through a transfer of economic resources in the future. They must be enforceable on the entity. Financial liabilities are a subset of liabilities. They are contractual obligations to deliver cash or other financial assets to another party, or to exchange financial instruments with another party under conditions that are potentially unfavourable. Financial liabilities are initially recognized at fair value, and subsequently either at amortized cost or fair value. ASPE does not specify how non-financial liabilities are measured. However, unearned revenues are generally measured at the fair value of the goods or services to be delivered in the future, while others are measured at the best estimate of the resources needed to settle the obligation. Under IFRS, non-financial liabilities other than unearned revenues are measured at the best estimate of the amount the entity would rationally pay at the date of the statement of financial position to settle the present obligation.

3. Define current liabilities and identify and account for common types of current liabilities. Current liabilities are obligations that are payable within one year from the date of the statement of financial position or within the operating cycle if the cycle is longer than a year. IFRS also includes liabilities held for trading and any obligation where the entity does not have an unconditional right to defer settlement beyond 12 months after the date of the statement of financial position. There are several types of current liabilities. The most common are accounts and notes payable, and payroll-related obligations.

4. Identify and account for the major types of employee-related liabilities. Employee-related liabilities include (1) payroll deductions, (2) compensated absences, and (3) profit-sharing and bonus agreements. Payroll deductions are amounts that are withheld from employees and result in an obligation to the government or other party. The employer's matching contributions are also included in this obligation. Compensated absences earned by employees are company obligations that are recognized as employees earn an entitlement to them, as long as they can be reasonably measured. Bonuses based on income are accrued as an expense and liability as the income is earned.

5. Explain the recognition, measurement, and disclosure requirements for decommissioning and restoration obligations. A decommissioning, restoration, or asset retirement obligation (ARO) is an estimate of the costs a company is obliged to incur when it retires certain assets. It is recorded as a liability and is usually long-term in nature. Under ASPE, only legal obligations are recognized. They are measured at the best estimate of the cost to settle them at the date of the statement of financial position, and the associated cost is included

as part of the cost of property, plant, and equipment. Under IFRS, both legal and constructive obligations are recognized. They are measured at the amount the entity would rationally pay to be relieved of the obligation, and are capitalized as part of PP&E or to inventory, if due to production activities. Over time, the liability is increased for the time value of money and the asset costs are amortized to expense. Entities disclose information about the nature of the obligation and how it is measured, with more disclosures required under IFRS than ASPE.

6. Explain the issues and account for unearned revenues. When an entity receives proceeds in advance or for multiple deliverables, unearned revenue is recognized to the extent the entity has not yet performed. This is measured at the fair value of the remaining goods or services that will be delivered. When costs remain to be incurred in revenue transactions where the revenue is considered earned and has been recognized, estimated liabilities and expenses are recognized at the best estimate of the application of the matching concept.

7. Explain the issues and account for product guarantees and other customer program obligations. Historically, an expense approach has been used to account for the outstanding liability, but some recent standards have moved toward the revenue approach. Under the expense approach, the outstanding liability is measured at the cost of the economic resources needed to meet the obligation. The assumption is that along with the liability that is required to be recognized at the reporting date, the associated expense needs to be measured and matched with the revenues of the period. Under the revenue approach, the outstanding liability is measured at the value of the obligation. The proceeds received for any goods or services yet to be delivered or performed are considered to be unearned at the point of sale. Until the revenue is earned, the obligation—the liability—is reported at its sales or fair value. The liability is then reduced as the revenue is earned.

8. Explain and account for contingencies and uncertain commitments, and identify the accounting and reporting requirements for guarantees and commitments. Under existing standards, a loss is accrued and a liability recognized if (1) information that is available before the issuance of the financial statements shows that it is likely (or more likely than not under IFRS) that a liability has been incurred at the date of the financial statements, and (2) the loss amount can be reasonably estimated (under IFRS, it would be a rare situation where this could not be done). An alternative approach likely to be required in new standards being developed by the IASB is described in the Looking Ahead section of the chapter.

Guarantees in general are accounted for similarly to contingencies. Commitments, or contractual obligations, do not usually result in a liability at the date of the statement of financial position. Information about specific types of outstanding commitments is reported at the date of the statement of financial position.

9. Indicate how non-financial and current liabilities are presented and analyzed. Current liability accounts are commonly presented as the first classification in the liability section of the statement of financial position, although under IFRS, a common presentation is to present current assets and liabilities at the bottom of the statement. Within the current liability section, the accounts may be listed in order of their maturity or in order of their liquidation preference. IFRS requires information about and reconciliations of any provisions. Additional information is provided so that there is enough to meet the requirement of full disclosure. Information about unrecognized loss contingencies is reported in notes to the financial statements, including their

nature and estimates of possible losses. Commitments at year end that are significant in size, risk, or time are disclosed in the notes to the financial statements, with significantly more information required under IFRS. Three common ratios used to analyze liquidity are the current, acid-test, and days payables outstanding ratios.

10. Identify differences in accounting between IFRS and ASPE and what changes are expected in the near future. Private enterprise and international standards are substantially the same. However, there are some classification differences. ASPE does not address “provisions,” and there are differences related to which decommissioning and restoration liabilities are recognized and how the costs are capitalized, and how the probability and measurement criteria are applied to contingencies. In addition, requires considerably more disclosure. Looking ahead, revisions to the existing standards are being proposed by the IASB and FASB that will likely be applied, at least in part, under *CICA Handbook*, Part II in the future. The major changes relate to the recognition and measurement standards for non-financial liabilities.

MULTIPLE CHOICE—Conceptual

Answer	No.	Description
c	1.	Essential characteristics of liabilities
c	2.	Constructive obligation
b	3.	Recognition and accounting for financial liabilities
a	4.	Classification of notes payable
d	5.	Zero-interest-bearing notes
c	6.	Refinancing of long-term debts
b	7.	Identify item that is not a current liability.
c	8.	Identify the current liability.
d	9.	Classification of stock dividends distributable
a	10.	Goods and Services Tax
b	11.	Identify current liability.
c	12.	Accounting for GST
a	13.	Provincial Sales Tax
b	14.	Corporation income tax
d	15.	Current liabilities in general - determine false statement
c	16.	Determine employer's payroll costs
b	17.	Accumulating rights to benefits
c	18.	Accrual of liability for compensated absences
b	19.	Non-accumulating rights to benefits
d	20.	Methods of calculating employee bonuses
c	21.	Definition of a provision
d	22.	Recognition of an asset retirement obligation
c	23.	Recognition of an asset retirement obligation
a	24.	Recording accretion expense for ARO
c	25.	Revenue approach for product guarantees
d	26.	Determine false statement regarding warranties
b	27.	Accounting for premiums and coupons
c	28.	Recognition of contingencies (ASPE)
a	29.	Recognition of contingencies (IFRS)
d	30.	Accrual of contingent liability
c	31.	Disclosure of commitments
d	32.	Acid-test ratio elements
c	33.	Days payable outstanding elements
b	34.	Essential characteristics of liabilities
c	35.	Proposed amendments regarding provisions and contingencies
d	36.	IFRS re customer loyalty programs

MULTIPLE CHOICE—Computational

Answer	No.	Description
b	37.	Adjusting entry for zero-interest-bearing note
d	38.	Journal entry for payment of interest-bearing note
b	39.	Determine amount of short-term debt to be reported.
d	40.	Determine amount of short-term debt to be reported.
b	41.	Calculate accounts receivable including sales taxes.
c	42.	Calculate cost of purchase for own use.
d	43.	Payment of GST
c	44.	Adjusting entry for corporate income tax
b	45.	Calculate payroll tax expense.
b	46.	Calculate vacation pay expense to be reported.
c	47.	Calculate accrued vacation pay liability.
b	48.	Calculate net pay.
d	49.	Entry for asset retirement obligation
b	50.	Entry for asset retirement obligation accretion
c	51.	Adjusting entry for unearned revenue
a	52.	Expense approach to warranty
a	53.	Revenue approach to warranty
c	54.	Calculate warranty liability (expense approach).
a	55.	Calculate liability for unredeemed coupons.
b	56.	Determine amount to accrue as a loss contingency.
d	57.	Determine amount to accrue as a gain contingency.
c	58.	Calculate quick (acid-test) ratio.
d	59.	Calculate current ratio.
a	60.	Calculate days payables outstanding.

MULTIPLE CHOICE—CPA Adapted

Answer	No.	Description
a	61.	Knowledge of accounts payable
d	62.	Determine amount of short-term debt to be reported.
c	63.	Calculate accrued interest payable.
c	64.	Calculate HST collected.
a	65.	Calculate accrued salaries payable.
b	66.	Accrual of payroll taxes
b	67.	Calculate asset retirement obligation.
b	68.	Determine current and long-term portions of debt.
b	69.	Calculate unearned service contract revenue.
c	70.	Calculate liability from unredeemed trading stamps.
d	71.	Determine range of loss accrual.

EXERCISES

Item	Description
E13-72	Notes payable
E13-73	Sales taxes
E13-74	Payroll entries
E13-75	Compensated absences
E13-76	Asset retirement obligation
E13-77	Premiums
E13-78	Premiums
E13-79	Contingent liabilities

PROBLEMS

Item	Description
P13-80	Common types of current liabilities
P13-81	Accounts and notes payable
P13-82	Refinancing of short-term debt
P13-83	Employee related liabilities
P13-84	Asset retirement obligation
P13-85	Premiums
P13-86	Warranties
P13-87	Unredeemed coupons
P13-88	Contingences

MULTIPLE CHOICE—Conceptual

1. According to the existing IFRS and the CICA Handbook Part II guidelines, which of the following is NOT an essential characteristic of a liability?
 - a. It embodies a duty or responsibility.
 - b. The transaction or event that obliges the entity has occurred.
 - c. The obligation is enforceable on the obligor entity.
 - d. The entity has little or no discretion to avoid the duty.

2. A constructive obligation arises when
 - a. the entity is legally obligated to honour the obligation.
 - b. the entity makes an unconditional promise to pay money in the future.
 - c. past or present company practice reveals the entity acknowledges a potential economic burden.
 - d. the entity has a conditional obligation which becomes unconditional if an uncertain future event occurs.

3. Which of the following statements is NOT true about recognition and subsequent accounting for financial liabilities?
 - a. They are initially recognized at their fair value.
 - b. After acquisition, they continue to be accounted for at fair value.
 - c. After acquisition, they are generally accounted for at amortized cost.
 - d. Short term liabilities, such as accounts payable, are usually recorded at their maturity value.

4. Among Oslo Corp.'s short-term obligations, on its most recent statement of financial position date, are notes payable totalling \$250,000 with the Provincial Bank. These are 90-day notes, renewable for another 90-day period. These notes should be classified on Oslo's statement of financial position as
 - a. current liabilities.
 - b. deferred charges.
 - c. long-term liabilities.
 - d. shareholders' equity.

5. Regarding zero-interest-bearing notes,
 - a. they do not have an interest component.
 - b. the debtor receives the future value of the note and pays back the present value.
 - c. any interest is never recognized until the note is repaid.
 - d. the debtor receives the present value of the note and pays back the future value.

6. Under IFRS, even if the entity plans to refinance long term debt, the current portion must be reported as a current liability UNLESS
 - a. long term financing has been completed after the statement of financial position date, but before the financial statements are released.

- b. management intends to refinance the debt on a long-term basis.
 - c. at statement of financial position date, the entity expects to refinance under an existing agreement for at least a year, and the decision is solely at its discretion.
 - d. management intends to discharge the debt by issuing shares.
7. Which of the following should NOT be included in the current liabilities section of the statement of financial position?
- a. trade accounts payable
 - b. current portion of long term debt to be retired by non-current assets
 - c. short-term zero-interest-bearing notes payable
 - d. a liability due on demand (callable debt)
8. Which of the following is a current liability?
- a. preferred dividends in arrears
 - b. stock dividends distributable
 - c. preferred cash dividends payable
 - d. stock splits
9. Stock dividends distributable should be classified on the
- a. income statement as an expense.
 - b. statement of financial position as an asset.
 - c. statement of financial position as a liability.
 - d. statement of financial position as an item of shareholders' equity.
10. Goods and Services Tax (GST)
- a. is a value added tax.
 - b. is a sales tax charged by each province on all taxable goods.
 - c. in some provinces, is an income tax.
 - d. must be collected by all businesses in Canada.
11. Which of the following may be classified as a current liability?
- a. stock dividends distributable
 - b. accounts receivable credit balances
 - c. losses expected to be incurred within the next twelve months in excess of the company's insurance coverage
 - d. tenant's rent deposit not returnable until the end of a long-term lease
12. Accounting for GST includes
- a. crediting GST Payable to record GST paid on inventory for resale.
 - b. crediting GST Recoverable to record GST collected from customers.
 - c. debiting GST Recoverable to record GST paid to suppliers.
 - d. debiting GST Payable to record GST collected from customers.
13. Regarding Provincial Sales Tax (PST)

- a. the purchaser includes any PST paid in the cost of the goods or services.
 - b. all PST paid is recorded in a "PST Expense" account.
 - c. all PST paid is recorded in a "PST Recoverable" account.
 - d. for statement of financial position presentation, a PST registrant "nets" any PST paid against any PST collected from customers.
14. Corporation income taxes payable
- a. must always be approved by an external auditor.
 - b. are reviewed and approved by Canada Revenue Agency (CRA).
 - c. also apply to proprietorships and partnerships.
 - d. are always the same under GAAP and Canadian tax laws.
15. Which of the following statements is FALSE?
- a. Under IFRS, a company may exclude a short-term obligation from current liabilities if, at statement of financial position date, the entity expects to refinance under an existing agreement for at least a year, and the decision is solely at its discretion.
 - b. Cash dividends should be recorded as a liability when they are declared by the board of directors.
 - c. Under the cash basis method, warranty costs are charged to expense as they are paid.
 - d. Federal income taxes withheld from employees' payroll cheques should be recorded as a long-term liability.
16. Which of the following are included in the employer's "Payroll Tax Expense"?
- a. employee income tax deducted, employer portion of CPP/QPP and EI
 - b. employer portion of CPP/QPP and EI, union dues
 - c. employer portion of CPP/QPP and EI only
 - d. employer portion of EI, union dues, and employee income tax deducted
17. Accumulating rights to benefits (for employees)
- a. are rarely mandated by provincial labour law.
 - b. include vested rights that do not depend on the employee's continued service.
 - c. are rights that do not accrue with employee service.
 - d. are not accrued as an expense in the period earned.
18. A liability for compensated absences such as vacations, for which it is expected that employees will be paid, should
- a. be accrued during the period when the compensated time is expected to be used by employees.
 - b. be accrued during the period following vesting.
 - c. be accrued during the period when earned.
 - d. not be accrued unless a written contractual obligation exists.
19. Non-accumulating rights to benefits, such as parental leave, are generally accounted for by
- a. the full accrual method.
 - b. the event accrual method.

- c. the cash method.
 - d. financial statement note disclosure only.
20. Which of the following is generally NOT used as a basis for calculating bonuses or profit sharing amounts?
- a. a percentage of the employees' regular pay rates
 - b. the company's pre-tax income
 - c. productivity increases
 - d. gross sales
21. Under IFRS, a provision is
- a. a special fund set aside to pay long-term debt.
 - b. unearned revenue.
 - c. a liability of uncertain timing or amount.
 - d. an allowance for future dividends to be paid.
22. At the time of recognition of an asset retirement obligation, the present value should be
- a. recorded as a separate long-term asset and as an asset retirement obligation.
 - b. expensed and recorded as an asset retirement obligation.
 - c. expensed to "Asset Retirement Expense" in the period actually paid.
 - d. added to the related asset cost and recorded as an asset retirement obligation.
23. Under ASPE, an asset retirement obligation should be recognized when
- a. an asset is impaired and is available for sale.
 - b. operation of an asset has resulted in an additional obligation such as the cost of cleaning up an oil spill.
 - c. there is a legal obligation to restore the site of the asset at the end of its useful life.
 - d. the company has an obligation to purchase a long-lived asset.
24. Which of the following statements is INCORRECT regarding the recording of the related increase or accretion in the carrying amount of an asset retirement obligation (ARO)?
- a. Under ASPE, it is recognized as interest expense.
 - b. Under ASPE, it is recognized as an operating expense (but not as interest expense).
 - c. Under IFRS, it is recognized as a borrowing cost.
 - d. The amount should be calculated using the same discount (interest rate) as was used to calculate the initial present value of the ARO.
25. Using the revenue approach of accounting for product guarantees and warranty obligations
- a. the liability is measured at the estimated cost of meeting the obligation.
 - b. there is no effect on future income.
 - c. the liability is measured at the value of the services to be provided.
 - d. the liability is measured at the value of the services to be provided, but there is no effect on future income.

26. Which of the following statements is INCORRECT concerning warranties?
- Using the expense approach, the warranty is provided with the product or service with no additional fee.
 - Where warranty costs are immaterial or when the warranty period is quite short, the warranty costs may be accounted for using the cash basis.
 - Using the revenue approach, the warranty is a separate deliverable from the related product or service.
 - The revenue approach must be used for income tax purposes.
27. The current (commonly used) accounting treatment for premiums and coupons requires that the costs should
- be recorded at the maximum possible redemption cost in the year of the related sales.
 - be recorded at the total estimated redemption cost in the year of the related sales.
 - be recorded in the year(s) that the redemption is expected to occur.
 - not be recorded at all.
28. Under ASPE, a contingent liability is recognized if
- it is certain that funds are available to settle the contingency.
 - an asset may have been impaired.
 - the amount of the loss can be reasonably estimated and it is likely that an asset has been impaired or a liability incurred as of the financial statement date.
 - it is likely that an asset has been impaired or a liability incurred even though the amount of the loss cannot be reasonably estimated.
29. Under current IFRS requirements, a provision is recognized if
- the amount of the loss can be reliably measured and it is probable that an asset has been impaired or a liability incurred as of the financial statement date.
 - the amount of the loss cannot be measured reliably but it is probable that an asset has been impaired or a liability incurred as of the financial statement date.
 - it relates to a lawsuit commenced after the statement of financial position date, the outcome of which can be reliably measured.
 - it relates to an asset recognized as impaired after the statement of financial position date.
30. Which of the following may NOT be accrued as a contingent liability?
- threat of expropriation of assets
 - pending or threatened litigation
 - guarantees of indebtedness of other.
 - potential income tax refunds
31. Which of the following commitments would NOT require disclosure in the financial statement notes?
- major property, plant and equipment expenditures
 - payments under non-cancellable operating leases
 - large purchases of materials in the normal course of business
 - commitments involving significant risk

32. The numerator of the acid-test ratio consists of
- total current assets.
 - cash and marketable securities.
 - cash and net receivables.
 - cash, marketable securities, and net receivables.
33. The denominator of the days payable outstanding ratio can be
- average daily sales.
 - average trade accounts payable.
 - average daily cost of goods sold.
 - average trade accounts receivable.
34. According to the IASB current proposed definition, which of the following is NOT an essential characteristic of a liability?
- It exists in the present time.
 - There is certainty about the amount of future outflows.
 - The obligation is enforceable on the obligor entity.
 - It represents an economic burden or obligation.
35. According to the *Exposure Draft of Proposed Amendments to IAS 37, Provisions, Contingent Liabilities and Contingent Assets*
- only conditional obligations are recorded.
 - liabilities must have measurement certainty.
 - the term "contingent liabilities" is eliminated.
 - a conditional obligation related to an unconditional obligation is not recognized.
36. What are the current International Financial Reporting Standards regarding customer loyalty programs (such as frequent flyer points)?
- They are recognized only in the financial statement notes.
 - They are recognized only when customers redeem their points.
 - They are not explicitly addressed.
 - The current proceeds are to be split between the original transaction and the award credits (as unearned revenue).

MULTIPLE CHOICE ANSWERS—Conceptual

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
1.	c	7.	b	13.	a	19.	b	25.	c	31.	c
2.	c	8.	c	14.	b	20.	d	26.	d	32.	d
3.	b	9.	d	15.	d	21.	c	27.	b	33.	c
4.	a	10.	a	16.	c	22.	d	28.	c	34.	b
5.	d	11.	b	17.	b	23.	c	29.	a	35.	c
6.	c	12.	c	18.	c	24.	a	30.	d	36.	d

MULTIPLE CHOICE—Computational

37. On November 1, 2014, Best Corp. signed a three-month, zero-interest-bearing note for the purchase of \$80,000 of inventory. The maturity value of the note was \$81,200, based on the bank's discount rate of 6%. The adjusting entry prepared on December 31, 2014 in connection with this note will include a

- a. debit to Note Payable for \$800.
- b. credit to Note Payable for \$800.
- c. debit to Interest Expense for \$1,200.
- d. credit to Interest Expense for \$800.

38. On December 1, 2014, Corby Ltd. borrowed \$270,000 from their bank, by signing a four-month, 7% interest bearing note. Assuming Corby has a December 31 year end and does NOT use reversing entries, the journal entry to record payment of this note on April 1, 2015 will include a

- a. credit to Note Payable of \$270,000.
- b. debit to Interest Expense of \$6,300.
- c. debit to Interest Payable of \$4,725.
- d. debit to Interest Payable of \$1,575.

39. On February 10, 2014, after issuance of its financial statements for calendar 2013, Diogenes Corp. entered into a financing agreement with Gigantic Bank, allowing Diogenes Corp. to borrow up to \$6,000,000 at any time through 2016. Amounts borrowed under the agreement bear interest at 2% above the bank's prime interest rate and mature two years from the date of the loan. Diogenes presently has \$2,250,000 of notes payable with Provincial Bank maturing March 15, 2015. The company intends to borrow \$3,750,000 under the agreement with Gigantic and pay off the notes payable to Provincial. The agreement with Gigantic also requires Diogenes to maintain a working capital level of \$9,000,000 and prohibits the payment of dividends on common shares without prior approval by Gigantic. From the above information only, the total short-term debt of Diogenes Corp. on the December 31, 2013 statement of financial position is

- a. \$0.
- b. \$2,250,000.
- c. \$3,000,000.
- d. \$6,000,000.

40. On December 31, 2014, Street Ltd. has \$2,000,000 in short-term notes payable due on February 14, 2015. On January 10, 2015, Street arranged a line of credit with Regal Bank, which allows Street to borrow up to \$1,500,000 at 1% above the prime rate for three years. On February 2, 2015, Street borrowed \$1,200,000 from Regal Bank and used \$500,000 additional cash to liquidate \$1,700,000 of the short-term notes payable. Assuming Street adheres to IFRS, the amount of the short-term notes payable that should be reported as current liabilities on Street's December 31, 2014 statement of financial position (to be issued on March 5, 2015) is

- a. \$0.
- b. \$300,000.
- c. \$1,200,000.

d. \$2,000,000.

41. Ye Olde Shoppe operates in a province with a 6% PST. The store must also collect 5% GST on all sales. For the month of May, Ye Olde Shoppe sold \$90,000 worth of goods to customers, 60% of which were cash sales and the balance being on account. Based on the above information, what is the total debit to Accounts Receivable for the month of May?

- a. \$59,940
- b. \$39,960
- c. \$37,800
- d. \$36,000

42. Zircon Ltd., a GST registrant, buys \$4,500 worth of Office Supplies for their own use. The purchase is subject to 8% PST and 5% GST. What amount will be debited to the Office Supplies account as a result of this transaction?

- a. \$4,500
- b. \$4,725
- c. \$4,860
- d. \$5,085

43. At December 31, 2014, Manganese Corp.'s records show the following balances, all of which are normal: PST Payable, \$625; GST Payable, \$600; GST Recoverable, \$488. In January 2015, Manganese pays the Federal Government the net amount owing regarding GST owing from December. The journal entry to record this payment will include a

- a. debit to GST Payable of \$112.
- b. credit to Cash of \$600.
- c. credit to GST Payable of \$600.
- d. credit to GST Recoverable of \$488.

44. Aluminum Ltd. has made a total of \$23,250 in instalments for corporate income tax for calendar 2014, all of which have been debited to Current Income Tax Expense. At year end, Dec 31, 2014, the accountant has calculated that the corporation's actual tax liability is only \$21,500. What is the correct adjusting entry to reflect this fact?

- a. Dr Current Income Tax Expense \$1,750, Cr Income Taxes Payable \$1,750
- b. Dr Income Taxes Payable, \$1,750, Cr Current Income Tax Expense \$1,750
- c. Dr Income Taxes Receivable \$1,750, Cr Current Income Tax Expense \$1,750
- d. Dr Current Income Tax Expense \$21,500, Cr Income Taxes Payable \$21,500

45. The total payroll of Carbon Company for the month of October was \$240,000, all subject to CPP deductions of 4.95% and EI deductions of 1.83%. As well, \$60,000 in federal income taxes and \$6,000 of union dues were withheld. The employer matches the employee deductions and contributes 1.4 times the employee EI deductions. What amount should Carbon record as employer payroll tax expense for October?

- a. \$16,272.00
- b. \$18,028.80
- c. \$24,028.80
- d. \$78,028.80

Use the following information for questions 46–47.

Silver Ltd. has 35 employees who work 8-hour days and are paid hourly. On January 1, 2014, the company began a program of granting its employees 10 days paid vacation each year. Vacation days earned in 2014 may be taken starting on January 1, 2015. Information relative to these employees is as follows:

<u>Year</u>	<u>Hourly Wages</u>	<u>Vacation Days Earned by Each Employee</u>	<u>Vacation Days Used by Each Employee</u>
2014	\$12.90	10	0
2015	13.50	10	8
2016	14.25	10	10

Silver has chosen to accrue the liability for compensated absences (vacation pay) at the current rates of pay in effect when the vacation pay is earned.

46. What is the amount of vacation pay expense that should be reported on Silver's income statement for 2014?

- a. \$37,800
- b. \$36,120
- c. \$34,440
- d. \$ 0

47. What is the amount of the Vacation Wages Payable that should be reported at December 31, 2016?

- a. \$39,900
- b. \$45,360
- c. \$47,460
- d. \$47,880

48. Information regarding Oxygen Inc.'s payroll for the period ending March 22 follows:

Gross salaries and wages	\$100,000
CPP rate	4.95%
EI rate	1.83%
Employee income tax.....	deducted \$20,000
Company pension deducted.....	5% of gross salaries and wages
Union dues deducted	\$ 800

Assume 100% of the gross salaries and wages are subject to CPP and EI. Therefore, the NET pay for this period is

- a. \$66,690.
- b. \$67,420
- c. \$68,220.
- d. \$ 72,420.

Use the following information for questions 49–50.

Antimony Inc. developed a new gold mine during 2014, and is required by provincial law to

restore the site to its previous condition once mining operations are completed. The company estimates that the mine will close in 20 years and that the land restoration will cost \$5,000,000. Antimony uses a 6% discount rate.

49. To the nearest dollar, the entry to record the asset retirement obligation is

a. Restoration Expense	93,541	
Asset Retirement Obligation		93,541
b. Restoration Expense	250,000	
Asset Retirement Obligation		250,000
c. Gold Mine	5,000,000	
Asset Retirement Obligation		5,000,000
d. Gold Mine	1,559,000	
Asset Retirement Obligation		1,559,000

50. To the nearest dollar, the adjusting entry to record accretion at the end of year one is

a. Accretion Expense	250,000	
Asset Retirement Obligation		250,000
b. Accretion Expense	93,540	
Asset Retirement Obligation		93,540
c. Gold Mine	93,540	
Asset Retirement Obligation		93,540
d. Interest Expense	93,540	
Asset Retirement Obligation		93,540

51. On Dec 12, 2014, Ivory Coast, CGA, received \$5,000 from a customer as an advance payment for accounting work to be done. The payment was credited to Accounting Revenue. Thirty percent of the work was performed in December 2014, with the rest to be done in January 2015, at which time the customer will be billed. The required adjusting entry at December 31, 2014 (year end) is

- a. Dr Unearned Revenue \$1,500, Cr Accounting Revenue \$1,500.
- b. Dr Accounting Revenue \$1,500, Cr Unearned Revenue \$1,500.
- c. Dr Accounting Revenue \$3,500, Cr Unearned Revenue \$3,500.
- d. Dr Unearned Revenue \$3,500, Cr Accounting Revenue \$3,500.

52. Platinum Corp. uses the expense approach to account for warranties. They sell a used car for \$30,000 on Oct 25, 2014, with a one year warranty covering parts and labour. Warranty expense is estimated at 2% of the selling price, and the appropriate adjusting entry is recorded at Dec 31, 2014. On March 12, 2015, the car is returned for warranty repairs. This cost Platinum \$200 in parts and \$120 in labour. When recording the March 12, 2015 transaction, Platinum would debit Warranty Expense with

- a. Zero.
- b. \$120.
- c. \$200.
- d. \$320.

53. Potassium Corp. uses the revenue approach to account for warranties. During 2014, the

company sold \$500,000 worth of products, all of which carried a two year warranty (included in the price). It was estimated that 2% of the selling price represented the warranty portion, and that 60% of this related to 2014, and 40% to 2015. Assuming that Potassium incurred costs of \$3,700 to service the warranties in 2015, what is the net warranty revenue (revenue minus warranty costs) for 2015?

- \$300
- \$1,300
- \$3,700
- \$4,000

54. In 2014, Hydrogen Corp. began selling a new line of products that carry a two-year warranty against defects. Based upon past experience with other products, the estimated warranty costs related to dollar sales are as follows:

First year of warranty	2%
Second year of warranty	5%

Sales and actual warranty expenditures for 2014 and 2015 are presented below:

	<u>2014</u>	<u>2015</u>
Sales	\$450,000	\$600,000
Actual warranty expenditures	15,000	30,000

Hydrogen uses the expense approach to account for warranties. What is the estimated warranty liability at the end of 2015?

- \$73,500
- \$43,500
- \$28,500
- \$12,000

55. Krypton Foods distributes coupons to consumers which may be presented, on or before a stated expiry date, to grocery stores for discounts on certain Krypton products. The stores are reimbursed when they send the coupons in to Krypton. In Krypton's experience, only about 50% of these coupons are redeemed. During 2014, Krypton issued two separate series of coupons as follows:

<u>Issued On</u>	<u>Total Value</u>	<u>Coupon Expiry Date</u>	<u>Amounts Reimbursed as of Dec 31/14</u>
Jan 1/14	\$250,000	Jun 30/14	\$118,000
Jul 1/14	360,000	Dec 31/14	150,000

Krypton's only journal entries for 2014 recorded debits to coupon expense, and credits to cash of \$268,000. Their December 31, 2014 statement of financial position should include a liability for unredeemed coupons of

- \$0.
- \$30,000.
- \$62,000.
- \$180,000.

56. Asbestos Corp. is being sued for illness caused to local residents as a result of negligence on the company's part in permitting the local residents to be exposed to highly toxic chemicals. Asbestos's lawyer states that it is likely the corporation will lose the suit and be found liable for a judgement which may cost Asbestos anywhere from \$300,000 to \$1,500,000. However, the lawyer states that the most likely cost is \$900,000. As a result of the above facts, using ASPE,

Asbestos should accrue

- a. a loss contingency of \$300,000 and disclose an additional contingency of up to \$1,200,000.
- b. a loss contingency of \$900,000 and disclose an additional contingency of up to \$600,000.
- c. a loss contingency of \$900,000 but not disclose any additional contingency.
- d. no loss contingency but disclose a contingency of \$300,000 to \$1,500,000.

57. At January 1, 2014, Neon Corp. owned a machine that had cost \$100,000. The accumulated depreciation to date was \$60,000, estimated residual value was \$6,000, and fair value was \$160,000. On January 4, 2014, this machine suffered major damage due to Argon Corp.'s actions and was written off as worthless. In October 2014, a court awarded damages of \$160,000 against Argon in favour of Neon. At December 31, 2014, the final outcome of this case was awaiting appeal and was, therefore, uncertain. However, in the opinion of Neon's attorney, Argon's appeal will be denied. At December 31, 2014, what amount should Neon accrue for this gain contingency?

- a. \$160,000
- b. \$130,000
- c. \$100,000
- d. \$0

58. Presented below is information available for Radon Corp.:

Current Assets	
Cash.....	\$ 8,000
Marketable securities	150,000
Accounts receivable	122,000
Inventories.....	220,000
Prepaid expenses.....	<u>60,000</u>
Total current assets	<u>\$560,000</u>

Total current liabilities are \$100,000. To two decimals, Radon's acid-test ratio is

- a. 5.60.
- b. 5.30.
- c. 2.80.
- d. .36.

59. Lee Kim Inc.'s most recent statement of financial position includes

Cash	\$7,500
Accounts receivable	10,000
Inventory	13,300
Plant and equipment (net).....	73,700
Accounts payable.....	14,000
Long term bonds payable.....	50,000
Common shares.....	20,000
Retained earnings.....	20,500

To two decimals, Lee Kim Inc. has a current ratio of

- a. .27.
- b. .48.
- c. 1.63.

d. 2.20.

60. Helium Corp. provides the following information for 2014 and 2015:

	<u>2014</u>	<u>2015</u>
Current assets.....	\$23,000	\$27,000
Accounts payable.....	9,000	10,000
Other current liabilities.....	5,000	4,000
Non-current liabilities.....	50,000	62,000
Sales.....	125,000	135,000
Cost of goods sold	75,000	79,600

To one decimal, Helium's days payable outstanding for 2015 is

- a. 43.6 days.
- b. 46.2 days.
- c. 47.2 days.
- d. 48.7 days.

MULTIPLE CHOICE ANSWERS—Computational

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
37.	b	41.	b	45.	b	49.	d	53.	a	57.	d
38.	d	42.	c	46.	b	50.	b	54.	c	58.	c
39.	b	43.	d	47.	c	51.	c	55.	a	59.	d
40.	d	44.	c	48.	b	52.	a	56.	b	60.	a

DERIVATIONS—Computational

No.	Answer	Derivation
37.	b	$\$80,000 \times 6\% \times 2 \div 12 = \800
38.	d	Interest payable that would have been recorded at Dec 31/14 $\$278,000 \times 7\% \times 1 \div 12 = \$1,575.$
39.	b	\$2,250,000 (no agreement in place at year end)
40.	d	\$2,000,000 (no agreement in place at year end)
41.	b	$\$90,000 \times 40\% \times 1.11 = \$39,960$
42.	c	$\$4,500 \times 1.08 = \$4,860$
43.	d	To clear GST Recoverable account
44.	c	$\$23,250 - \$21,500 = \$1,750$ overpaid = Income Taxes Receivable
45.	b	$(\$240,000 \times 4.95\%) + (\$240,000 \times 1.83\% \times 1.4) = \$18,028.80$
46.	b	$\$12.90 \times 8 \times 10 \times 35 = \$36,120$
47.	c	$(\$14.25 \times 8 \times 10 \times 35) + (\$13.50 \times 8 \times 2 \times 35) = \$47,460$
48.	b	$\$100,000 - (100,000 \times (.0495 + .0183 + .05)) - \$20,000 - \$800 = \$67,420$
49.	d	20 N 6 I 5000000 FV CPT PV => \$1,559,000
50.	b	$\$1,559,000 \times 6\% = \$93,540$
51.	c	Remove 70% of revenue and transfer to liability
52.	a	Debit is to the liability account, not the expense acct
53.	a	$\$500,000 \times 2\% \times 40\% = \$4,000 - \$3,700$ costs = \$300
54.	c	$[\$450,000 + \$600,000 \times .07] - \$15,000 - \$30,000 = \$28,500$
55.	a	$(\$360,000 \times .5) - \$150,000 = \$30,000$ $8000 + \$150,000 + \$122,000$
56.	b	\$900,000 and \$600,000
57.	d	\$0, gain contingencies are not accrued
58.	c	$\frac{\$100,000}{36} = 2.80$
59.	d	$\frac{7,500 + 10,000 + 13,300}{14,000} = 2.20$
60.	a	$\frac{(10,000 + 9,000) \div 2}{79,600 \div 365} = 43.6$ days

MULTIPLE CHOICE—CPA Adapted

61. Which of the following is generally associated with current liabilities classified as accounts payable?

<u>Periodic Payment of Interest</u>	<u>Secured by Collateral</u>
a. No	No
b. No	Yes
c. Yes	No
d. Yes	Yes

62. Included in Harrison Inc.'s account balances at December 31, 2014, were the following:

4% note payable issued October 1, 2014, maturing September 30, 2015	\$250,000
6% note payable issued April 1, 2014, payable in six equal annual instalments of \$100,000 beginning April 1, 2015	600,000

Harrison's December 31, 2014 financial statements were to be issued on March 31, 2015. On January 15, 2015, the entire \$600,000 balance of the 6% note was refinanced by issuance of a long-term note to be repaid in 2015. In addition, on March 10, 2015, Harrison made arrangements to refinance the 4% note on a long-term basis. Under IFRS, on the December 31, 2014 statement of financial position, the amount of the notes payable that Harrison should classify as current liabilities is

- a. \$0.
- b. \$100,000.
- c. \$250,000.
- d. \$350,000.

63. On September 1, 2014, Coffee Ltd. issued a \$1,800,000, 12% note to Humungous Bank, payable in three equal annual principal payments of \$600,000. On this date, the bank's prime rate was 11%. The first payment for interest and principal was made on September 1, 2015. At December 31, 2015, Coffee should record accrued interest payable of

- a. \$72,000.
- b. \$66,000.
- c. \$48,000.
- d. \$44,000.

64. Jordan Corp. operates in Ontario, selling a variety of goods. For most of these goods, Jordan must charge 13% HST, for some they only have to charge 5% HST; while a very few are tax exempt. During June of this year, the company reported sales of \$200,000, on which 70% were charged 13% HST, 25% were charged only 5% HST, and the rest were tax exempt sales. The total amount of HST collected in June was

- a. \$10,000.
- b. \$18,200.
- c. \$20,700.
- d. \$26,000.

65. Browning Company's salaried employees are paid biweekly. Information relating to salaries for the calendar year 2014 is as follows:

Accrued salaries payable	91,000
Salaries expense for 2014.....	910,000
Salaries paid during 2014 (gross).....	875,000

At December 31, 2014, what amount should Browning report for accrued salaries payable?

- a. \$126,000
- b. \$120,000
- c. \$91,000
- d. \$35,000

66. Willow Corp.'s payroll for the period ended October 31, 2014 is summarized as follows:

Department <u>Payroll</u>	Total <u>Wages</u>	Income Tax <u>Withheld</u>	Amount of Wages Subject to Payroll Taxes	
			<u>CPP/QPP</u>	<u>EI</u>
Factory	\$ 75,000	\$10,000	\$66,000	\$22,000
Sales	22,000	3,000	16,000	2,000
Office	<u>18,000</u>	<u>2,000</u>	<u>8,000</u>	<u>—</u>
	<u>\$115,000</u>	<u>\$15,000</u>	<u>\$90,000</u>	<u>\$24,000</u>

Assume the following payroll tax rates:

CPP/QPP for employer and employee	4.95% each
Employment Insurance	1.83% for employee 1.4 times employee premium for employer

To the nearest dollar, what amount should Willow accrue as its share of payroll taxes in its October 31, 2014 statement of financial position?

- a. \$ 4,894
- b. \$ 5,070
- c. \$ 6,102
- d. \$20,070

67. On April 30, 2014, Canuck Oil Corp. purchased an oil tanker depot for \$1,200,000 cash. The company expects to operate this depot for eight years, at which time they will be legally required to dismantle the structure and remove the underground storage tanks. Canuck Oil estimates this asset retirement obligation (ARO) will cost \$200,000. Assuming a 5% discount rate, to the nearest dollar, the amount to be recorded as the ARO is

- a. \$ 25,000.
- b. \$135,368.
- c. \$150,000.
- d. \$295,491.

68. On January 1, 2014, Wick Ltd. leased a building to Candle Corp. for a ten-year term at an annual rental of \$90,000. At the inception of the lease, Wick received \$360,000 covering the first two years rent of \$180,000 and a security deposit of \$180,000. This deposit will NOT be returned to Candle upon expiration of the lease but will be applied to payment of rent for the last two years of the lease. What portion of the \$360,000 should be shown as a current and long-term liability, respectively, in Wick's December 31, 2014 statement of financial position?

Current Liability Long-term Liability

- | | | |
|----|-----------|-----------|
| a. | \$ 0 | \$360,000 |
| b. | \$ 90,000 | \$180,000 |
| c. | \$180,000 | \$180,000 |
| d. | \$180,000 | \$ 90,000 |

69. Woodward's Store sells major household appliance service contracts for cash. The service contracts are for a one-year, two-year, or three-year period. Cash receipts from contracts are credited to unearned service contract revenues. This account had a balance of \$600,000 at December 31, 2013 before year-end adjustment. Service contract costs are charged as incurred to the service contract expense account, which had a balance of \$150,000 at December 31, 2013. Outstanding service contracts at December 31, 2013 expire as follows:

<u>During 2014</u>	<u>During 2015</u>	<u>During 2016</u>
\$125,000	\$200,000	\$90,000

What amount should be reported as unearned service contract revenues in Woodward's December 31, 2013 statement of financial position?

- a. \$450,000
- b. \$415,000
- c. \$300,000
- d. \$275,000

70. Jackpine Trading Stamp Co. records trading stamp revenue and provides for the cost of redemptions in the year stamps are sold to licensees. Jackpine's past experience indicates that only 75% of the stamps sold to licensees will be redeemed. Jackpine's liability for stamp redemptions was \$3,000,000 at December 31, 2014. Additional information for 2014 is as follows:

Stamp revenue from stamps sold to licensees	\$2,000,000
Cost of redemptions	1,350,000

If all the stamps sold in 2014 were presented for redemption in 2015, the redemption cost would be \$1,000,000. What amount should Jackpine report as a liability for stamp redemptions at December 31, 2014?

- a. \$3,750,000
- b. \$2,650,000
- c. \$2,400,000
- d. \$1,650,000

71. Harriet Ltd. has a likely loss that can only be reasonably estimated within a range of outcomes. No single amount within the range is a better estimate than any other amount. Under ASPE, the loss accrual should be

- a. zero.
- b. the maximum of the range.
- c. the mean of the range.
- d. the minimum of the range.

MULTIPLE CHOICE ANSWERS—CPA Adapted

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
61.	a	63.	c	65.	a	67.	b	69.	b	71.	d
62.	d	64.	c	66.	b	68.	b	70.	c		

DERIVATIONS—CPA Adapted

No.	Answer	Derivation
61.	a	Conceptual—accounts payable generally are zero-interest-bearing and unsecured.
62.	d	$250,000 + 100,000 = \$350,000$
63.	c	$(\$1,800,000 - \$600,000) \times .12 \times 4 \div 12 = \$48,000$
64.	c	$(\$200,000 \times 13\% \times 70\%) + (\$200,000 \times 5\% \times 25\%) = \$20,700$
65.	a	$\$910,000 + \$91,000 - \$875,000 = \$126,000$
66.	b	$(\$90,000 \times .0495) + (\$24,000 \times .0183 \times 1.4) = \$5,070$
67.	b	8 N 5 I/Y 200000 FV CPT PV => \$135,368
68.	b	\$90,000 (50% to be earned in 2015) and \$180,000 (security deposit)
69.	b	$\$125,000 + \$200,000 + \$90,000 = \$415,000$
70.	c	$\$3,000,000 + (\$2,000,000 \times 75\%) - \$1,350,000 - (\$1,000,000 \times 75\%) = \$2,400,000$
71.	d	Conceptual

EXERCISES

Ex. 13-72 Notes payable

On August 31, 2014, Kamloops Corp. paid the Regal Bank part of an outstanding \$300,000 long-term 10% note payable obtained one year earlier (August 31, 2013), by paying \$180,000 plus \$18,000 interest. In order to do this, Kamloops used \$52,400 cash and signed a new one-year, zero-interest-bearing \$160,000 note discounted at 9% by Regal (i.e. the bank deducted 9% from the \$160,000).

Instructions

- a. Prepare the entry to record the refinancing.
- b. Prepare the adjusting entry at December 31, 2014 in connection with the new zero-interest-bearing note.

Solution 13-72

a. Notes Payable.....	180,000	
Interest Expense	18,000	
Notes Payable ($\$160,000 \times 91\%$).....		145,600
Cash.....		52,400
b. Interest Expense ($\$145,600 \times 9\% \times 4 \div 12$).....	4,368	
Notes Payable.....		4,368

Ex.13-73 Sales taxes

For the month of November, Parry Sound Sales Ltd. recorded \$280,000 in sales, 40% of which were on account (terms N30), and 60% of which were cash sales. The company is required to charge 6% PST and 5% GST on all sales.

Instructions

Prepare one journal entry to record the company's sales for November.

Solution 13-73

Accounts Receivable ($280,000 \times 1.11 \times 40\%$)	124,320	
Cash ($280,000 \times 1.11 \times 60\%$).....	186,480	
Sales Revenue.....		280,000
GST Payable ($280,000 \times 5\%$).....		14,000
PST Payable ($280,000 \times 6\%$).....		16,800

Ex. 13-74 Payroll entries

The total payroll of Lyndon Inc. was \$230,000. Income taxes withheld were \$55,000. The EI rate is 1.83% for the employee and 1.4 times the employee premium for the employer. The CPP/QPP contributions are 4.95% for both the employee and employer.

Instructions (Round all values to the nearest dollar, if necessary)

- a. Prepare the journal entry for the wages and salaries paid.
- b. Prepare the entry to record the employer payroll taxes.

Solution 13-74

a. Wages and Salaries Expense	230,000	
Employee Income Tax Deductions Payable		55,000
EI Payable (\$230,000 x 1.83%)		4,209
CPP/QPP Payable (\$230,000 x 4.95%)		11,385
Cash		159,406
b. Payroll Tax Expense	17,278	
EI Payable (\$4,209 x 1.4)		5,893
CPP/QPP Contributions Payable		11,385

Ex. 13-75 Compensated absences

Sycamore Ltd. began operations on January 2, 2014. The company employs 15 people who work 8-hour days. Each employee earns 10 paid vacation days annually. Vacation days may be taken after January 10 of the year following the year in which they are earned. The average hourly wage rate was \$12.00 in 2014 and \$12.75 in 2015. The average number of vacation days used by each employee in 2015 was 9. Sycamore accrues the cost of compensated absences at rates of pay in effect when earned.

Instructions

Prepare journal entries to record the transactions related to paid vacation days during 2014 and 2015.

Solution 13-75

2014

Wages Expense	¹ 14,400	
Vacation Wages Payable		14,400

¹ 15 × 8 × \$12.00 × 10 = \$14,400.

2015

Wages Expense	810	
Vacation Wages Payable	² 12,960	
Cash		³ 13,770
Wages Expense	⁴ 15,300	
Vacation Wages Payable		15,300

² \$14,400 ÷ 10 × 9 = \$12,960

³ 15 × 8 × \$12.75 × 9 = \$13,770

⁴ \$15 × 8 × \$12.75 × 10 = \$15,300

Ex.13-76 Asset Retirement Obligation

Tin Mines International Ltd. discovered a new iron ore deposit, the Grouse Mine, and began production on January 1, 2014. The province requires mining companies to return the land to its natural state at the end of mining activity. Tin Mines International estimates that it will operate the mine for 25 years, at which time it will cost \$25,000,000 for the land restoration project. Tin Mines International uses an 8% discount rate, and follows ASPE.

Instructions

- a. Record any obligation for land restoration at January 1, 2014.
- b. Record any entry required related to this obligation at December 31, 2014.

Solution 13-76

a. January 1, 2014		
Grouse Mine	3,650,500	
Asset Retirement Obligation		3,650,500

25 N 8 I 25000000 FV CPT PV => \$3,650,500

b. December 31, 2014		
Accretion Expense	292,000	
Asset Retirement Obligation		292,000

\$3,650,500 x 8% = 292,000

Ex. 13-77 Premiums

Modern Music gives its customers coupons which are redeemable for a poster plus a Hens and Chicks DVD. One coupon is issued for each dollar of sales. On presentation of 100 coupons and \$5.00 cash, the customer receives the poster and DVD. Modern estimates that 80% of the coupons will be presented for redemption. Sales for Year One were \$1,050,000, and 510,000 coupons were redeemed. Sales for Year Two were \$1,260,000, and 1,275,000 coupons were redeemed. Modern bought 30,000 posters at \$2.00 each, and 30,000 DVDs at \$5.50 each.

Instructions

Prepare the following entries for both years, assuming all the coupons expected to be redeemed from Year One were redeemed by the end of Year Two.

Entry	Year One	Year Two
a. To record coupons redeemed		
b. To record estimated liability		

Solution 13-77

Entry	Year One	Year Two
a. Estimated Liability for Premiums		8,250
Premium Expense [(510,000 ÷ 100) x (\$7.50 – \$5)]	12,750	*23,625
Cash (510,000 ÷ 100) x \$5	25,500	**63,750
Inventory of Premium Posters and DVDs	38,250	95,625
*[(1,275,000 ÷ 100) x (7.50 – \$5)] – 8,250		
**[(1,275,000 ÷ 100) x \$5		
b. Premium Expense	*8,250	1,575
Estimated Liability for Premiums	8,250	1,575
*[(1,050,000 x .80) – 510,000] ÷ 100 x \$2.50		

Ex. 13-78 Premiums

Fido Corp. includes one coupon in each bag of dog food it sells. In return for three coupons, customers receive a dog toy that the company purchases for \$1.20 each. Fido's experience indicates that 60% of the coupons will be redeemed. During 2014, 100,000 bags of dog food were sold, 12,000 toys were purchased, and 45,000 coupons were redeemed. During 2015, 120,000 bags of dog food were sold, 16,000 toys were purchased, and 60,000 coupons were redeemed.

Instructions

Determine the premium expense to be reported in the income statement and the estimated liability for premiums on the statement of financial position for 2014 and 2015.

Solution 13-78

	2014	2015
Premium expense	\$24,000 (1)	\$28,800 (3)
Estimated liability for premiums	6,000 (2)	10,800 (4)

- (1) $100,000 \times .6 = 60,000$; $60,000 \div 3 = 20,000$; $20,000 \times \$1.20 = \$24,000$
- (2) $45,000 \div 3 = 15,000$; $20,000 - 15,000 = 5,000$; $5,000 \times \$1.20 = \$6,000$
- (3) $120,000 \times .6 = 72,000$; $72,000 \div 3 = 24,000$; $24,000 \times \$1.20 = \$28,800$
- (4) $60,000 \div 3 = 20,000$; $5,000 + 24,000 - 20,000 = 9,000$; $9,000 \times \$1.20 = \$10,800$

Ex. 13-79 Contingent liabilities

Below are three independent situations:

1. In August, 2014, a worker was injured in the factory in an accident partially the result of his own negligence. The worker has sued his employer, Prince Corp., for \$500,000. Prince's legal counsel believes it is possible that the outcome of the suit will be unfavourable and that the settlement would cost the company from \$150,000 to \$400,000.
2. On October 4, 2014, a lawsuit for breach of contract seeking damages of \$2,400,000 was filed by an author against Queen Corp. Queen's legal counsel believes that an unfavourable outcome is more likely than not. A reliable measurement of the award to the plaintiff is between \$600,000 and \$1,800,000.
3. King Ltd. is involved in a pending court case. King's lawyers believe it is likely that King will be awarded damages of \$700,000.

Instructions

Discuss the proper accounting treatment, including any required disclosures, for each situation. Give the rationale for your answers. Assume all companies involved use IFRS.

Solution 13-79

1. Prince should disclose, in the notes to the financial statements, the existence of a possible contingent liability related to the law suit. The note should indicate the range of the possible loss. The contingent liability should not be accrued because the loss is only possible, not probable (as required by IFRS).
2. The likely award should be accrued by a debit to an estimated loss account and a credit to an estimated liability using the expected value method. Queen should disclose the following in the notes to the financial statements: the amount of the suit, the nature of the contingency, the reason for the accrual, and the range of the possible loss.

The accrual is made because it is more likely than not (probable) that a liability has been incurred and the amount of the loss can be measured reliably.

3. King should not record the gain contingency until it is realized. Usually, gain contingencies are neither accrued nor disclosed. The \$700,000 gain contingency should be disclosed only if the likelihood that it will be realized is very high.

PROBLEMS

Pr 13-80 Common types of current liabilities

Define and identify common types of current liabilities and how they are valued.

Solution 13-80

Current liabilities are obligations due within one year or the operating cycle where this is longer than one year from the statement of financial position date. The liquidation of a current liability is reasonably expected to require the use of current assets or the creation of other current liabilities. Theoretically, liabilities should be measured at the present value of the future outlay of cash required to liquidate them. In practice, current liabilities other than borrowings are usually recorded in accounting records and reported in financial statements at their full maturity value. There are several types of current liabilities, the most common being accounts and notes payable, sales taxes payable, and payroll related obligations.

Pr. 13-81 Accounts and Notes Payable

Below are selected transactions of Blackbird Ltd. for 2014:

1. On May 10, the company purchased goods from Jay Corp. for \$60,000, terms 2/10, n/30. Purchases and accounts payable are recorded at net amounts. The invoice was paid on May 18.
2. On June 1, the company purchased equipment for \$180,000 from Seagull Ltd., paying \$60,000 in cash and giving a one-year, 8% note for the balance.
3. On September 30, the company borrowed \$162,000 from the Second National Bank by signing a one year, zero-interest-bearing note for \$180,000. The bank's discount rate was 10%.

Instructions

- a. Prepare the journal entries necessary to record the transactions above using appropriate dates.
- b. Prepare the adjusting entries necessary at December 31, 2014 in order to properly report interest expense related to the above transactions.
- c. Indicate the manner in which the above transactions should be reflected in the Current Liabilities section of Blackbird's December 31, 2014 statement of financial position.

Solution 13-81

<u>May 10, 2014</u>		
Purchases/Inventory (\$60,000 x 98%).....	58,800	
Accounts Payable.....		58,800
 <u>May 18, 2014</u>		
Accounts Payable	58,800	
Cash.....		58,800
 <u>June 1, 2014</u>		
Equipment.....	180,000	
Cash.....		60,000
Notes Payable.....		120,000

<u>September 30, 2014</u>		
Cash	162,000	
Notes Payable		162,000
b. Interest Expense	5,600	
Interest Payable ($\$120,000 \times 8\% \times 7 \div 12$)		5,600
Interest Expense	4,050	
Notes Payable ($\$162,000 \times 10\% \times 3 \div 12$).....		4,050
c. <u>Current Liabilities</u>		
Interest payable.....	\$ 5,600	
Note payable—Seagull Ltd.....	120,000	
Note payable—Second Provincial Bank ($162,000 + 4,050$)	<u>166,050</u>	
		<u>\$291,650</u>

Pr. 13-82 Refinancing of short-term debt

At their last year end, December 31, 2014, the liabilities outstanding of Copper Corp. included the following:

1. Cash dividends on common shares, \$100,000, payable on January 15, 2015
2. Note payable to Manitoba Bank, \$850,000, due January 20, 2015
3. Serial bonds, \$2,000,000, of which \$500,000 matures during 2015
4. Note payable to Ontario Bank, \$200,000, due January 27, 2015

The following transactions occurred early in 2015:

January 15: The cash dividends were paid.

January 20: The note payable to Manitoba Bank was paid.

January 25: Copper entered into a financing agreement with Saskatchewan Bank, enabling it to borrow up to \$1,000,000 at any time through the end of 2014. Amounts borrowed under the agreement would bear interest at 1% above the bank's prime rate and would mature 3 years from the date of the loan. The corporation immediately borrowed \$800,000 to replace the cash used in paying its January 20 note to Manitoba Bank.

January 26: 40,000 common shares were issued for \$300,000. \$200,000 of the proceeds was used to pay off the note payable to Ontario Bank.

February 1: The financial statements for 2014 were issued.

Instructions

Prepare a partial statement of financial position for Copper Corp., showing the manner in which the above liabilities should be presented at December 31, 2014 under IFRS. The liabilities should be properly classified between current and long-term, and any appropriate note disclosure should be included.

Solution 13-82

Current liabilities:

Dividends payable on common shares.....	\$ 100,000
Notes payable—Manitoba Bank	850,000
Note payable—Ontario Bank—Note 1	200,000

Currently maturing portion of serial bonds	500,000	
Total current liabilities.....	\$1,650,000	
 Long-term debt:		
Serial bonds not maturing currently	1,500,000	
Total long-term debt	1,500,000	
Total liabilities	\$3,150,000	

Note 1: On January 26, 2015, the corporation issued 40,000 common shares and received proceeds totalling \$300,000, of which \$200,000 was used to liquidate a note payable that matured on January 27, 2015.

Pr. 13-83 Employee related liabilities

Identify and account for the major types of employee-related liabilities

Solution 13-83

Employee-related liabilities include (1) payroll deductions, (2) compensated absences and (3) bonus agreements. Payroll deductions are amounts withheld from employees along with the employer’s required contributions that have not yet been remitted to the government. Compensated absences earned by employees are company obligations that should be recognized as the employees earn the entitlement to them, provided they can be reasonably measured. Bonuses based on income should be accrued as an expense and liability as the income is earned.

Pr. 13-84 Asset Retirement Obligation

Extraction Friendly Ltd. (EFL) specializes in extracting ore. It prides itself for following high environmental standards in the extraction process. On January 1, 2010, EFL purchased the rights to use a parcel of land from the province of New Brunswick. The rights cost \$15,000,000 and allowed the company to extract ore for five years, i.e., until Dec 31, 2014. EFL expects to extract the ore evenly over the contract period. At the end of the contract, EFL has one year to clean up and restore the land. EFL estimates this will cost \$2,000,000.

EFL uses a discounted cash flow method to calculate the fair value of this obligation and believes that 8% is the appropriate discount rate. EFL uses straight-line depreciation method. EFL uses the calendar year as its fiscal year and follows IFRS.

As a helpful suggestion, students may want to draw a timeline of events before solving the questions given below.

Instructions (Round all values to the nearest dollar.)

- a. Prepare the journal entries to be recorded on January 1, 2010.
- b. Prepare the journal entries to be recorded on December 31, 2010. Show the amounts and accounts to be reported on the classified statement of financial position at December 31, 2010.
- c. Prepare the journal entries to be recorded on December 31, 2014. Show the amounts and accounts reported on the classified statement of financial position at December 31, 2014.
- d. After 2014, EFL was supposed to clean up and restore the land. Even though the company spent a considerable amount of money on restoration, it was sued by the province of New Brunswick for not following the contract’s requirements. On February 3, 2016, judgment

was rendered against EFL for \$3,000,000. The company claims that because the language in the contract was misleading regarding the restoration costs, it plans to appeal the judgment and expects the ruling to be reduced to anywhere between \$1,000,000 and \$2,000,000, with \$1,500,000 being the probable amount. EFL has not yet released its 2015 financial statements. Discuss how EFL should report this matter on its financial statements for the year ended December 31, 2015.

Solution 13-84

a. To record the purchase of the rights and the ARO:

January 1, 2010

Extraction rights	15,000,000	
Cash.....		15,000,000
Extraction rights	1,361,160	
Asset retirement obligation		1,361,160

5 N 8 I 2000000 FV CPT PV => 1,361,160

b. To depreciate the extraction rights over 5 years and also record accretion (interest) expense on the obligation.

December 31, 2010

Depreciation expense	3,272,232	
((15,000,000+1,361,160) ÷ 5)		
Accumulated depreciation		3,272,232
Interest expense**	108,893	
(1,361,160 x 8%)		
Asset retirement obligation		108,893

** If the company were using ASPE, the debit is to Accretion Expense

Statement of financial position amounts:

<u>Account</u>	<u>Amount</u>	<u>Classification</u>
Extraction rights net of accumulated depreciation	13,088,928*	Long-term assets
Asset retirement obligation	1,470,053**	Long-term liabilities

*15,000,000 + 1,361,160 – 3,272,232 = 13,088,928

**1,361,160 + 108,893 = 1,470,053

c. For the depreciation of the extraction rights, the journal entry is the same every year.

December 31, 2014

Depreciation expense	3,272,233	
Accumulated depreciation		3,272,233

For the accretion (interest) costs, first you need to find the carrying value of the ARO at January 1, 2014 and then to calculate the expense. Since the carrying value at January 1, 2014 is \$1,851,851, the interest expense is 1,851,851 x 8% = 148,149.

Interest expense.....	148,149	
Asset retirement obligation		148,149

Statement of financial position amounts:

<u>Account</u>	<u>Amount</u>	<u>Classification</u>
Extraction rights net of accumulated depreciation	0	
Asset retirement obligation	2,000,000	Current liabilities

Since by the end of 2014 the liability is due to be discharged within a year, it should be classified as a current liability.

d. This is a somewhat complicated situation. Clearly EFL is expecting a contingent loss of anywhere between \$1,500,000 and \$3,000,000. However, a \$3,000,000 judgment has already been rendered against them, while the reduction in the loss is uncertain. There are two legitimate approaches to this issue. The first approach is to record a loss of \$1,500,000 for 2015 (since this amount is deemed probable) and to provide full disclosure in the notes about the ruling and the expected appeal. The second approach is that the firm has incurred a contingent loss of \$3,000,000 and expects a contingent gain of \$1,500,000. Because losses are recorded immediately and contingent gains are not, then EFL should record a loss of \$3,000,000 for 2015 and provide full disclosure on the possible contingent gain.

Pr. 13-85 Premiums

Creamy Candy Company offers a coffee mug as a premium for every ten 50-cent candy bar wrappers presented by customers together with \$1.00. The purchase price of each mug to the company is 90 cents; in addition it costs 60 cents to mail each mug. The results of the premium plan for the years 2014 and 2015 are as follows (assume all purchases and sales are for cash):

	<u>2014</u>	<u>2015</u>
Coffee mugs purchased	480,000	400,000
Candy bars sold	3,750,000	4,500,000
Wrappers redeemed	1,900,000	2,800,000
2014 wrappers expected to be redeemed in 2015.....	1,300,000	
2015 wrappers expected to be redeemed in 2016.....		1,800,000

Instructions

- a. Prepare the general journal entries that should be made in 2014 and 2015 related to the above plan by Creamy Candy.
- b. Indicate the account names, amounts, and classifications of the items related to the premium plan that would appear on the statement of financial position and income statement at the end of 2014 and 2015.

Solution 13-85

a.

2014

Inventory of Premium Mugs (480,000 × \$.90 = \$432,000).....	432,000	
Cash.....		432,000
Cash	1,875,000	
Sales (3,750,000 × \$.50 = \$1,875,000)		1,875,000

13- 38 Test Bank for Intermediate Accounting, Tenth Canadian Edition

Cash [1,900,000 ÷ 10 = 190,000 × (\$1.00 – \$.60) = \$76,000]	76,000	
Premium Expense.....	95,000	
Inventory of Premium Mugs (190,000 × \$.90 = \$171,000).....		171,000
Premium Expense (1,300,000 ÷ 10 = 130,000 × \$.50 = \$65,000)..	65,000	
Estimated Liability for Premiums		65,000

2015

Inventory of Premium Mugs (400,000 × \$.90 = \$360,000).....	360,000	
Cash.....		360,000
Cash	2,250,000	
Sales (4,500,000 × \$.50 = \$2,250,000)		2,250,000
Cash [2,800,000 ÷ 10 = 280,000 × (\$1.00 – \$.60) = \$112,000]	112,000	
Estimated Liability for Premiums	65,000	
Premium Expense.....	75,000	
Inventory of Premium Mugs (280,000 × \$.90 = \$252,000).....		252,000
Premium Expense.....	90,000	
Estimated Liability for Premiums		90,000
(1,800,000 ÷ 10 = 180,000 × \$.50 = \$90,000)		

b. Statement of financial position

<u>Name</u>	<u>Classification</u>	<u>2014</u>	<u>2015</u>
Inventory of Premium Mugs	Current Asset	\$261,000	\$369,000
Estimated Liability for Premiums	Current Liability	65,000	90,000

Income Statement

<u>Name</u>	<u>Classification</u>	<u>2014</u>	<u>2015</u>
Premium Expense	Operating Expense	160,000	165,000

Pr. 13-86 Warranties

Alaska Computer Company sells computers for \$2,000 each, which includes a 3-year warranty that requires the company to perform periodic services and to replace defective parts. During 2014, Alaska sold 500 computers on account. Based on past experience, the company has estimated the total 3-year warranty costs at \$80 for parts and \$100 for labour. (Assume sales all occur at December 31, 2014.)

In 2015, Alaska Computer Company incurred actual warranty costs relative to 2014 computer sales of \$10,000 for parts and \$12,000 for labour.

Instructions

- Using the expense warranty approach, prepare the entries to reflect the above transactions (accrual method) for 2014 and 2015.
- Using the cash basis method, what are the Warranty Expense balances for 2014 and 2015?
- The transactions of part a. create what balance under current liabilities in the 2014 statement of financial position?

Solution 13-86

a.

2014

Accounts Receivable.....	1,000,000	
Sales		1,000,000
Warranty Expense 500 x (\$80 + \$100).....	90,000	
Estimated Liability Under Warranties.....		90,000

2015

Estimated Liability Under Warranties.....	22,000	
Inventory		10,000
Accrued Payroll		12,000

b. 2014 \$0
2015 \$20,000

c. 2014 Current Liabilities—Estimated Liability Under Warranties \$30,000
(The remainder of the \$90,000 liability is a long-term liability.)

Pr. 13-87 Unredeemed coupons

During 2014, Red Deer Corp. sold 200,000 tickets for hockey games for \$60 each under a new sales promotion program. Each ticket contains one coupon. Any person who presents 2 coupons can receive a ticket to an Edmonton Flames football game for only \$2. Red Deer pays \$8.00 per football ticket and at the beginning of 2014 had purchased 80,000 tickets (any tickets not used in 2014 can be used in 2015). The company estimates that 60% of the coupons will be redeemed even though only 50,000 coupons had been processed during 2014.

Instructions

- a. What amount should Red Deer report as a liability for unredeemed coupons on December 31, 2014?
- b. What amount of expense will Red Deer report on its 2014 income statement as a result of the promotional program?
- c. Prepare any necessary 2014 journal entries related to the promotion program.
- d. Explain how the accounting treatment for this promotion is treated under IFRS.

Solution 13-87

a. The number of coupons expected to be processed is $200,000 \times 60\% = 120,000$. In 2014, 50,000 coupons were processed, so 70,000 more are expected to be processed and accordingly 35,000 tickets to be purchased. The additional net cost per ticket is \$6 and therefore the liability for unredeemed coupons at December 31, 2014 should be $35,000 \times 6 = \$210,000$.

b. Promotion expense = $(120,000) \div 2 \times 6 = 360,000$.

c.

Inventory of Premium Tickets (80,000 x \$8).....	640,000	
Cash.....		640,000
Cash (200,000 x \$60).....	12,000,000	

Sales		12,000,000
Estimated Liability for Premiums	150,000	
Cash (50,000 ÷ 2 x \$2).....	50,000	
Inventory of Premium Tickets (50,000 ÷ 2 x \$8).....		200,000
Premium Expense.....	360,000	
Estimated Liability for Premiums		360,000

d. Under IFRS, this promotion would be considered a multiple deliverables arrangement. Red Deer is selling two separate products (the hockey tickets and the football tickets), with the selling price of the hockey tickets inflated to encourage the ticket purchasers to also purchase football tickets. Therefore some of the revenue from the sale of each hockey ticket should be deferred and allocated to the delivery of the football tickets. An estimated amount should be deferred to 2015 when the remaining coupons will be redeemed.

Pr. 13-88 Contingencies

You have been hired by Yew Corp. to advise them on how to reflect the events below in their financial statements for the year ended December 31, 2014 under ASPE.

Event 1: The Division A employees union has been negotiating a new contract with Yew Corp. The union is requesting a 5% wage increase retroactive for two years. Yew's management has offered the union a 2% wage increase retroactive for one year. While the negotiations are still ongoing, the company believes that an agreement will soon be reached for a 4% wage increase retroactive for one year, but there is no guarantee that this will be the outcome of the negotiations.

Event 2: The Division B employees union is also negotiating a new contract with Yew Corp. However, these negotiations are proving to be very tough. So far there has not been much progress and management is pessimistic about a quick resolution. The company is concerned that during 2015 the Division B employees will decide to go on strike; in fact, Yew considers it very likely. At this point it is difficult to assess the economic consequences of the potential strike.

Event 3: Towards the end of 2014, a fire destroyed one of Yew's plants. The damage is estimated to be \$8,000,000 and the company's insurance policy has maximum coverage of \$15,000,000 for this. The deductible on the policy is \$300,000. The company is concerned that the insurance premium (\$200,000 in 2014) will double in 2015.

Instructions

For each of the above events, state the accounting treatment you believe is most appropriate. Be specific, and give your rationale.

Solution 13-88

Event 1: The event is more likely than not to happen and the cost can be reasonably estimated. Yew Corp. should accrue an additional expense for 2014 based on the most likely outcome of a 4% wage increase retroactive for one year. In the notes to the financial statements, they should provide the range for the potential expense (2-5%, 1-2 years).

Event 2: If Yew Corp. considers this to be a contingent liability, note disclosure only would be appropriate, since the event is likely to happen but cannot be reasonably estimated. If they do not, then no disclosure is required.

Event 3: The \$300,000 deductible payment should be accrued in 2014 as a loss from fire. While the premium is likely to increase and can be reasonably measured, the cost relates to future periods and therefore no expense should be accrued for 2014. Full disclosure of the event and of the expected cost increase for next year is appropriate, unless the amount is immaterial.

Alternatives the company could consider:

1. Shop around for a better deal on insurance.
2. Avoid the potential premium increase by choosing to self-insure.

LEGAL NOTICE

Copyright © 2013 by John Wiley & Sons Canada, Ltd. or related companies. All rights reserved.

WILEY

The data contained in these files are protected by copyright. This manual is furnished under licence and may be used only in accordance with the terms of such licence.

The material provided herein may not be downloaded, reproduced, stored in a retrieval system, modified, made available on a network, used to create derivative works, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning, or otherwise without the prior written permission of John Wiley & Sons Canada, Ltd.