CHAPTER 13

NON-FINANCIAL AND Current liabilitieS

#### ASSIGNMENT CLASSIFICATION TABLE

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Topics | **Brief Exercises** | **Exercises** | **Problems** | **Writing Assign-ments** |
| 1. | Concept of liabilities; definition and classification. | 1 | 1 | 1 | 2, 5 |
| 2. | Current liabilities including accounts and notes payable, dividends payable, sales and income tax payable and short-term obligations expected to be refinanced. | 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12 | 2, 3, 4, 5, 6, 7, 8 | 1, 2, 3, 4 |  |
| 3. | Employee-related liabilities. | 13, 14, 15, 16, 17 | 6, 9, 10, 11, 12, 13 | 3, 5, 6, 7 | 4 |
| 4. | Asset retirement obligations. | 18, 19, 20 | 14, 15 | 1, 4, 8 | 1 |
| 5. | Unearned revenues, product guaranties, warranties and other customer programs. | 21, 22, 23, 24 | 6, 16, 17, 18, 19, 20, 21, 22, 23 | 1, 3, 4, 9, 10, 11, 12, 13, 14, 15 | 1, 3 |
|  6. | Contingencies, guarantees and uncertain commitments. | 25, 26 | 6, 24 | 8, 9, 16, 17 | 1, 3, 4 |
| 7. | Presentation and analysis. | 27 | 25, 26, 27 | 3, 8, 9, 17 | 5 |

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## ASSIGNMENT CHARACTERISTICS TABLE

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Item |  | Description | Level of Difficulty | Time (minutes) |
|  E13-1 |  | Balance sheet classification of various liabilities. | Simple | 10-15 |
|  E13-2 |  | Accounts and notes payable. | Moderate | 20-25 |
|  E13-3 |  | Liability for returnable containers. | Moderate | 15-20 |
|  E13-4 |  | Entries for sales tax. | Simple | 20-30 |
|  E13-5 |  | Income Tax. | Moderate | 15-20 |
|  E13-6 |  | Financial statement impact of liability transactions. | Moderate | 30-35 |
|  E13-7 |  | Refinancing of short-term debt. | Simple | 10-12 |
|  E13-8 |  | Refinancing of short-term debt. | Simple | 10-15 |
|  E13-9 |  | Payroll tax entries. | Simple | 15-20 |
|  E13-10 |  | Compensated absences – vacation and sick pay. | Moderate | 25-30 |
|  E13-11 |  | Compensated absences – vacation and sick pay. | Moderate | 25-30 |
|  E13-12 |  | Compensated absences – parental benefits. | Moderate | 25-30 |
|  E13-13 |  | Bonus calculation and income statement preparation. | Complex | 15-20 |
|  E13-14 |  | Asset retirement obligation. | Moderate | 20-25 |
|  E13-15 |  | Asset retirement obligation. | Moderate | 25-35 |
|  E13-16 |  | Warranties – expense approach and cash basis. | Simple | 10-15 |
|  E13-17 |  | Warranties – expense approach. | Moderate | 15-20 |
|  E13-18 |  | Warranties – expense approach and revenue approach. | Moderate | 20-25 |
|  E13-19 |  | Warranties – expense approach and revenue approach. | Moderate | 15-20 |
|  E13-20 |  | Premiums. | Moderate | 15-20 |
|  E13-21 |  | Premiums. | Moderate | 20-30 |
|  E13-22 |  | Premiums. | Simple | 10-15 |
|  E13-23 |  | Coupons and rebates. | Moderate | 15-20 |
|  E13-24 |  | Contingencies and commitments. | Moderate | 20-30 |
|  E13-25 |  | Ratio calculations and discussion. | Simple | 15-20 |
|  E13-26 |  | Ratio calculations and analysis. | Simple | 20-25 |
|  E13-27 |  | Ratio calculations and effect of transactions. | Moderate | 15-25 |

**ASSIGNMENT CHARACTERISTICS TABLE (Continued)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Item |  | Description | Level of Difficulty | Time (minutes) |
|  |  |  |  |  |
|  P13-1 |  | Current liability entries and adjustments. | Simple | 40-50 |
|  P13-2 |  | Instalment note. | Moderate | 30-35 |
|  P13-3 |  | Current liabilities: various. | Complex | 45-55 |
|  P13-4 |  | Asset retirement obligation and warranties. | Moderate | 25-35 |
|  P13-5 |  | Payroll tax entries. | Moderate | 20-30 |
|  P13-6 |  | Payroll tax entries. | Moderate | 20-25 |
|  P13-7 |  | Bonus calculation. | Moderate | 25-30 |
|  P13-8 |  | Loss contingencies: entries and essay. | Moderate | 45-50 |
|  P13-9 |  | Advances, self-insurance, loss contingencies, guarantees and commitments. | Moderate | 25-30 |
|  P13-10 |  | Warranties, accrual and cash basis. | Simple | 20-25 |
|  P13-11 |  | Extended sales warranties. | Moderate | 20-30 |
|  P13-12 |  | Warranty calculations. | Moderate | 20-25 |
|  P13-13 |  | Premium entries. | Moderate | 30-45 |
|  P13-14 |  | Premium entries and financial statement presentation. | Moderate | 30-45 |
|  P13-15 |  | Warranties and premiums. | Simple | 25-30 |
|  P13-16 |  | Guarantees and contingencies. | Complex | 35-45 |
|  P13-17 |  | Loss contingencies: entries and essays. | Moderate | 45-50 |

**SOLUTIONS TO BRIEF EXERCISES**

**BRIEF EXERCISE 13-1**

1. **Working capital is the excess of total current assets over total current liabilities. It represents the liquid buffer that is available to meet the financial demands of the company’s operating cycle. Current liabilities place a demand on the company’s current assets. Management of the due dates of current liabilities and management of current assets to generate cash on a timely basis are important for effective management of business operations. Effective management of working capital to achieve high liquidity may also contribute to positive cash from operating activities as seen on the statement of cash flows.**
2. **Wellson can improve its management of working capital by focusing on management of current liabilities as well as current assets. For example, if Wellson has a cash flow shortage, it can take advantage of the full credit period extended by its suppliers. As another example, Wellson may also time the due dates of short-term notes payable to coincide with expected periods of positive cash flow.**

**BRIEF EXERCISE 13-2**

|  |  |  |  |
| --- | --- | --- | --- |
| **07/01** | **Purchases**  | **60,000** |  |
|  |  **Accounts Payable**  |  | **60,000** |
|  |  |  |  |
|  | **Freight-in**  | **1,200** |  |
|  |  **Cash Cash**  |  | **1,200** |
|  |  |  |  |
| **07/03** | **Accounts Payable**  | **6,000** |  |
|  |  **Purchase Returns and Allowances**  |  | **6,000** |
|  |  |  |  |
| **07/10** | **Accounts Payable**  | **54,000** |  |
|  |  **Cash**  |  | **52,920** |
|  |  **Purchase Discounts**  |  | **1,080** |