In the space provided, write the word or words to either replace the question mark or answer the question.

1. __?__ consist of obligations or responsibilities, based upon past or present transactions, to convey assets or to perform services sometime in the future. ______________________________

2. Obligations or responsibilities, based upon past or present transactions, to convey current assets or to perform services within one year or the normal operating cycle, whichever is longer, are referred to as __?__. ______________________________

3. Year-end adjustments related to guarantees or warranties are made in accordance with the __?____ principle. ______________________________

In the space provided, write the word or words to either replace the question mark or answer the question.

1. The ? principle requires complete and understandable reporting of all significant information relating to the economic affairs of the enterprise so that the financial statements will not be misleading. ______________________________

2. A loss contingency for which the amount of loss can be reasonably estimated should be accrued when the occurrence of the loss is ? (probably, remote, reasonably possible). ______________________________

Circle the letter of the best answer.

1. Which of the following is an accrued liability?
   A. wages payable
   B. cash dividends payable
   C. rent revenue collected one month in advance
   D. portion of long-term debt payable in current year

2. Which of the following generally is not classified as a current liability?
   A. accruals for product warranties
   B. cash collections received in advance of performance of services
   C. obligations that will be liquidated by the issuance of additional shares of the company's own common stock
   D. none of the foregoing

3. Which of the following accounts is least likely to be classified as a current liability?
   A. Allowance for Doubtful Accounts
   B. Interest Payable
   C. Revenue Collected in Advance
   D. Wages Payable
   E. Accounts Payable

4. According to FASB Statement No. 6, "Classification of Short-Term Obligations Expected to be Refinanced," an enterprise's intent to refinance the short-term obligation on a long-term basis may be supported in either of two ways. Which of the situations described below is not in accordance with FASB Statement No. 6 as a means of indicating management's intent to refinance a short-term obligation on a long-term basis:
   A. after the balance sheet date, but before the financial statements are issued, the short term debt is retired with the proceeds received from the issuance of a 90-day note payable
   B. after the balance sheet date, but before the financial statements are issued, the enterprise has entered into a financing agreement to refinance the short-term obligation on a long-term basis
   C. after the balance sheet date, but before the financial statements are issued, the short term debt is retired with the proceeds received from the issuance of the company's own stock
   D. after the balance sheet date, but before the financial statements are issued, the short term debt is retired with the proceeds received from the sale of land

Circle the letter of the best answer.

1. Which of the following reflects the conditions under which a loss contingency (an existing condition, situation, or set of circumstances involving uncertainty as to a possible loss to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur) should affect net income?
   A. the loss is possible and the amount can be reasonably estimated
   B. the loss is probable and the amount can be reasonably estimated
   C. the loss is remote and the amount can be reasonably estimated
   D. answers B and C above
   E. a loss contingency should never affect net income but should only be disclosed in notes to the financial statements

2. A loss contingency for which the amount of loss can be reasonably estimated should be accrued when the occurrence of the loss is

| | Reasonably possible | Remote |
|---|---|---|
| A. | yes | no |
| B. | yes | yes |
| C. | no | no |
| D. | no | yes |

3. A loss contingency for which the amount of loss can be reasonably estimated and the event that would generate the liability is reasonably possible to occur, should be disclosed in the financial statements by
   A. a footnote to the statements
   B. a parenthetical comment after the appropriate account title
   C. showing the amount among the liabilities but not extending it to the liability total
   D. an appropriate classification as regular liabilities in the balance sheet
   E. answers A, B, and C above are correct

4. A loss contingency for which the amount of loss can be reasonably estimated and the event that would generate the liability is likely to occur, should be disclosed in the financial statements by
   A. a footnote to the statements
   B. a parenthetical comment after the appropriate account title
   C. showing the amount among the liabilities but not extending it to the liability total
   D. an appropriate classification as regular liabilities in the balance sheet
   E. answers A, B, and C above

5. Which one of the following may be accrued as a current liability?
   A. a known obligation of a definite amount
   B. a known obligation of an estimated amount
   C. accrued wages payable
   D. all of the above

6. Which one of the following is a contingent loss that should be disclosed only in a note to the financial statements?
   A. a known obligation of a definite amount
   B. a known obligation of an estimated amount
   C. a claim that is reasonably possible will result in a loss
   D. a claim that probably will materialize as a loss

1. How should one describe liabilities?

2. How should one describe current liabilities?

3. According to FASB Statement No. 6, "Classification of Short-Term Obligations Expected to be Refinanced," an enterprise shall exclude a currently maturing long-term debt from current liabilities only if the company can demonstrate an ability to refinance the obligation on a long-term basis. The ability to consummate such refinancing may be demonstrated in one of two ways. What are the two ways? Be specific.

1. The FASB, in Statement No. 5, indicated two requirements that should be met before an estimated loss from a loss contingency should be accrued by a charge to income. What were the two requirements?

2. A service guarantee on products sold may be reported either by an accrual or merely by financial statement disclosure other than an accrual. How should you determine which way to properly report product guarantees?

3. Assuming that disclosure is required, what are the three ways in which a contingent loss, not shown as a liability in the financial statements, may be presented in the financial statements?