

Problem-Solving Assignment 1 (P13-1; P13-2)

PROBLEMS

3-1 (L01) GROUPWORK (Current Liability Entries and Adjustments) Described below are certain transactions of Edwardson Corporation. The company uses the periodic inventory system.

1. On February 2, the corporation purchased goods from Martin Company for \$70,000 subject to cash discount terms of 2/10, n/30. Purchases and accounts payable are recorded by the corporation at net amounts after cash discounts. The invoice was paid on February 26.
2. On April 1, the corporation bought a truck for \$50,000 from General Motors Company, paying \$4,000 in cash and signing a 1-year, 12% note for the balance of the purchase price.
3. On May 1, the corporation borrowed \$83,000 from Chicago National Bank by signing a \$92,000 zero-interest-bearing note due 1 year from May 1.
4. On August 1, the board of directors declared a \$300,000 cash dividend that was payable on September 10 to stockholders of record on August 31.

Instructions

- (a) Make all the journal entries necessary to record the transactions above using appropriate dates.
- (b) Edwardson Corporation's year-end is December 31. Assuming that no adjusting entries relative to the transactions above have been recorded, prepare any adjusting journal entries concerning interest that are necessary to present fair financial statements at December 31. Assume straight-line amortization of discounts.

3-2 (L01,3) EXCEL (Liability Entries and Adjustments) Listed below are selected transactions of Schultz Department Store for the current year ending December 31.

1. On December 5, the store received \$500 from the Selig Players as a deposit to be returned after certain furniture to be used in stage production was returned on January 15.
2. During December, cash sales totaled \$798,000, which includes the 5% sales tax that must be remitted to the state by the fifteenth day of the following month.
3. On December 10, the store purchased for cash three delivery trucks for \$120,000. The trucks were purchased in a state that applies a 5% sales tax.
4. The store determined it will cost \$100,000 to restore the area (considered a land improvement) surrounding one of its store parking lots, when the store is closed in 2 years. Schultz estimates the fair value of the obligation at December 31 is \$84,000.

Instructions

Prepare all the journal entries necessary to record the transactions noted above as they occurred and any adjusting journal entries relative to the transactions that would be required to present fair financial statements at December 31. Date each entry. For simplicity, assume that adjusting entries are recorded only once a year on December 31.

3-3 (L01) (Payroll Tax Entries) Cedarville Company pays its office employee payroll weekly. Below is a partial list of employees and their payroll data for August. Because August is their vacation period, vacation pay is also listed.

Employee	Earnings to July 31	Weekly Pay	Vacation Pay to Be Received in August
Mark Hamill	\$4,200	\$200	-
Karen Robbins	3,500	150	\$300
Brent Kirk	2,700	110	220
Alec Guinness	7,400	250	-
Ken Sprouse	8,000	330	660

Assume that the federal income tax withheld is 10% of wages. Union dues withheld are 2% of wages. Vacations are taken the second and third weeks of August by Robbins, Kirk, and Sprouse. The state unemployment tax rate is 2.5% and the federal is 0.8%, on a \$7,000 maximum. The FICA rate is 7.65% on employee and employer on a maximum of \$118,500 per employee. In addition, a 1.45% rate is charged both employer and employee for an employee's wages in excess of \$118,500.

Instructions

Make the journal entries necessary for each of the four August payrolls. The entries for the payroll and for the company's liability should be made separately. Also make the entry to record the monthly payment of accrued payroll liabilities.

3-4 (L01) EXCEL (Payroll Tax Entries) The following is a payroll sheet for Otis Import Company for the month of September 2017. The company is allowed a 1% unemployment compensation rate by the state; the federal unemployment tax rate is 0.8% and the maximum for both is \$7,000. Assume a 10% federal income tax rate for all employees and a 7.65% FICA tax on employee and employer on a maximum of \$118,500. In addition, 1.45% is charged both employer and employee for an employee's wages in excess of \$118,500 per employee.