

You and several classmates are studying for the next accounting examination. They ask you to answer the following questions.

1. If cash is borrowed on a \$50,000 6-month, 12% note on September 1, how much interest expense would be incurred by December 31?
2. The cash register total including sales taxes is \$23,320, and the sales tax rate is 6%. What is the sales taxes payable?
3. If \$15,000 is collected in advance on November 1 for 3 months' rent, what amount of the rent revenue should be recognized by December 31?

Solution

1. Use the interest formula: Face value of note x Annual interest x Time in terms of one year.
 $\$50,000 \times 12\% \times 4/12 = \$2,000$
2. Divide total receipts by 100% plus the tax rate to determine sales: then subtract sales from the total receipts.
 $\$23,320 / 1.06 = \$22,000$; $423,320 - \$22,000 = \$1,320$
3. Determine what fraction of the total unearned rent should be recognized this year.
 $\$15,000 \times 2/3 = \$10,000$

BE 10-5 & BE 10-6, page 485 Wages and Payroll Taxes

During the month of September, Lake Corporation's employees earned wages of \$60,000. Withholdings related to these wages were \$3,500 for Social Security (FICA), \$6,500 for Federal income tax. And \$2,000 for state income tax. Cost incurred for unemployment taxes were \$90 for federal and \$150 for state.

Prepare the September 30 journal entries for (a) salaries and wages expense and salaries and wages payable, assuming that all September wages will be paid in October, and (b) the company's payroll tax expense.

Solution

- (a) To determine wages payable, reduce wages expense by the withholdings for FICA, federal income tax, and state income tax.

Sept.30		Salaries and Wages Expense		60,000		
			FICA Taxes Payable			3,500
			Federal Income Taxes Payable			6,500
			State Income Taxes Payable			2,000
			Sales and Wages Payable			48,000

- (b) Payroll Taxes would be for the company's share of FICA, as well as for federal and state unemployment tax.

Sept. 30		Payroll Tax Expense		3,740		
			FICA Taxes Payable			3,500
			Federal Unemployment Taxes Payable			90
			State Unemployment Taxes Payable			150

BE 10-8, page 493 Bond Issuance.

Giant Corporation issues \$200,000 of bonds for \$189,000. (a) Prepare the journal entry to record the issuance of the bonds, and (b) show how the bonds would be reported on the balance sheet at the date of issuance.

Solution

(a)

Cash		189,000		
Discount on Bonds Payable		11,000		
Bonds Payable				200,000
(To record sales of bonds at a discount)				

(b)

Long-term liabilities			
Bonds payable		\$200,000	
Less Discount on bonds payable		<u>11,000</u>	\$189,000