

CHAPTER 11

Current Liabilities and Payroll Accounting

ASSIGNMENT CLASSIFICATION TABLE

<u>Learning Objectives</u>	<u>Questions</u>	<u>Brief Exercises</u>	<u>Do It!</u>	<u>Exercises</u>	<u>A Problems</u>	<u>B Problems</u>
1. Explain a current liability, and identify the major types of current liabilities.	1	1		7	1A	1B
2. Describe the accounting for notes payable.	2	2	1	1, 2, 7	1A, 2A	1B, 2B
3. Explain the accounting for other current liabilities.	3, 4	3, 4	1	3, 4, 7	1A	1B
4. Explain the financial statement presentation and analysis of current liabilities.	5	5	2	7, 8, 9	1A	1B
5. Describe the accounting and disclosure requirements for contingent liabilities.	6, 7	6	2	5, 6, 7	1A	1B
6. Compute and record the payroll for a pay period.	8, 9, 10, 12, 13, 14, 15	7, 8	3	10, 11, 12, 13	3A, 4A, 5A	3B, 4B, 5B
7. Describe and record employer payroll taxes.	9, 10, 11, 15	9	4	12, 14	3A, 4A, 5A	3B, 4B, 5B
8. Discuss the objectives of internal control for payroll.	16, 17	10				
*9. Identify additional fringe benefits associated with employee compensation.	18, 19, 20, 21, 22	11		15, 16	4A	4B

***Note:** All **asterisked** Questions, Exercises, and Problems relate to material contained in the appendix to the chapter.

ASSIGNMENT CHARACTERISTICS TABLE

Problem Number	Description	Difficulty Level	Time Allotted (min.)
1A	Prepare current liability entries, adjusting entries, and current liabilities section.	Moderate	30–40
2A	Journalize and post note transactions and show balance sheet presentation.	Moderate	30–40
3A	Prepare payroll register and payroll entries.	Simple	30–40
4A	Journalize payroll transactions and adjusting entries.	Moderate	30–40
5A	Prepare entries for payroll and payroll taxes; prepare W-2 data.	Moderate	30–40
1B	Prepare current liability entries, adjusting entries, and current liabilities section.	Moderate	30–40
2B	Journalize and post note transactions and show balance sheet presentation.	Moderate	30–40
3B	Prepare payroll register and payroll entries.	Simple	30–40
4B	Journalize payroll transactions and adjusting entries.	Moderate	30–40
5B	Prepare entries for payroll and payroll taxes; prepare W-2 data.	Moderate	30–40

WEYGANDT ACCOUNTING PRINCIPLES 11E
CHAPTER 11
CURRENT LIABILITIES AND PAYROLL ACCOUNTING

Number	LO	BT	Difficulty	Time (min.)
BE1	1	C	Simple	3–5
BE2	2	AP	Simple	2–4
BE3	3	AP	Simple	2–4
BE4	3	AP	Simple	2–4
BE5	4	AP	Simple	2–4
BE6	5	AN	Simple	1–2
BE7	6	AP	Simple	3–5
BE8	6	AP	Simple	3–5
BE9	7	AP	Simple	2–4
BE10	8	C	Simple	2–4
BE11	9	AP	Simple	2–4
DI1	2, 3	C	Simple	6–8
DI2	4, 5	AP	Simple	8–10
DI3	6	AP	Simple	3–5
DI4	7	AP	Simple	3–5
EX1	2	AN	Moderate	8–10
EX2	2	AN	Simple	6–8
EX3	3	AP	Simple	4–6
EX4	3	AN	Simple	6–8
EX5	5	AN	Moderate	8–10
EX6	5	C	Simple	8–10
EX7	1–5	AP	Simple	6–8
EX8	4	AP	Simple	4–6
EX9	4	AP	Simple	6–8
EX10	6	AP	Simple	8–10
EX11	6	AP	Simple	6–8
EX12	6, 7	AP	Moderate	12–15
EX13	6	AP	Moderate	10–12
EX14	7	AP	Simple	6–8

CURRENT LIABILITIES AND PAYROLL ACCOUNTING (Continued)

Number	LO	BT	Difficulty	Time (min.)
EX15	9	AP	Simple	3–5
EX16	9	AP	Simple	4–6
P1A	1–5	AN	Moderate	30–40
P2A	2	AN	Moderate	30–40
P3A	6, 7	AN	Simple	30–40
P4A	6, 7, 9	AN	Moderate	30–40
P5A	6, 7	AN	Moderate	30–40
P1B	1–5	AN	Moderate	30–40
P2B	2	AN	Moderate	30–40
P3B	6, 7	AN	Simple	30–40
P4B	6, 7, 9	AN	Moderate	30–40
P5B	6, 7	AN	Moderate	30–40
BYP1	4, 5	C	Simple	10–15
BYP2	4	AN, E	Simple	10–15
BYP3	4	AN, E	Simple	10–15
BYP4	6, 7	C	Simple	15–20
BYP5	6, 7	E	Moderate	15–20
BYP6	7	C	Simple	10–15
BYP7	8	E	Simple	10–15
BYP8	6, 7	AN	Moderate	15–20
BYP9	—	AP	Simple	10–15

Correlation Chart between Bloom's Taxonomy, Learning Objectives and End-of-Chapter Exercises and Problems

Learning Objective	Knowledge	Comprehension	Application	Analysis	Synthesis	Evaluation
1. Explain a current liability, and identify the major types of current liabilities.		Q11-1 BE11-1	E11-7	P11-1A P11-1B		
2. Describe the accounting for notes payable.		Q11-2 DI11-1	BE11-2 E11-7	E11-1 E11-2 P11-1A	P11-2A P11-1B P11-2B	
3. Explain the accounting for other current liabilities.		DI11-1	Q11-3 Q11-4 BE11-3 BE11-4	E11-3 E11-7 E11-4 P11-1A	P11-1B	
4. Explain the financial statement presentation and analysis of current liabilities.		Q11-5	BE11-5 DI11-2 E11-7	E11-8 E11-9	P11-1A P11-1B	
5. Describe the accounting and disclosure requirements for contingent liabilities.		Q11-6 Q11-7 E11-6	DI11-2 E11-7	BE11-6 E11-5	P11-1A P11-1B	
6. Compute and record the payroll for a pay period.	Q11-9 Q11-12 Q11-14	Q11-8 Q11-10 Q11-13	Q11-15	BE11-7 BE11-8 DI11-3 E11-10	E11-11 E11-12 E11-13	P11-3A P11-4A P11-5A P11-3B P11-4B P11-5B
7. Describe and record employer payroll taxes.	Q11-11	Q11-9 Q11-10 Q11-15		BE11-9 DI11-4 E11-12	E11-14 P11-3A P11-4A P11-5A P11-3B P11-4B P11-5B	
8. Discuss the objectives of internal control for payroll.	Q11-17	Q11-16 BE11-10				
*9. Identify additional fringe benefits associated with employee compensation.	Q11-18	Q11-19 Q11-20 Q11-21	Q11-22	BE11-11 E11-15 E11-16	P11-4A P11-4B	
Broadening Your Perspective		Financial Reporting Communication Real-World Focus	FASB Codification	Comparative Analysis		Decision Making Across the Organization Ethics Case All About You

ANSWERS TO QUESTIONS

1. Lori is not correct. A current liability is a debt that a company expects to pay within one year or the operating cycle, whichever is longer.
2. In the balance sheet, Notes Payable of \$40,000 and Interest Payable of \$700 ($\$40,000 \times .07 \times 3/12$) should be reported as current liabilities. In the income statement, Interest Expense of \$700 should be reported under other expenses and losses.
3. (a) Disagree. The company only serves as a collection agent for the taxing authority. It does not report sales taxes as an expense; it merely forwards the amount paid by the customer to the government.
 (b) The entry to record the proceeds is:

Cash.....	8,400	
Sales Revenue		8,000
Sales Taxes Payable		400
4. (a) The entry when the tickets are sold is:

Cash.....	1,200,000	
Unearned Ticket Revenue		1,200,000

 (b) The entry after each game is:

Unearned Ticket Revenue	200,000	
Ticket Revenue.....		200,000
5. Liquidity refers to the ability of a company to pay its maturing obligations and meet unexpected needs for cash. Two measures of liquidity are working capital (current assets – current liabilities) and the current ratio (current assets ÷ current liabilities).
6. A contingent liability is a potential liability that may become an actual liability in the future. Contingent liabilities are only recorded in the accounts if they are probable and the amount is reasonably estimable. Warranty costs are a contingent liability usually recorded in the accounts since they are both probable in occurrence and subject to estimation.
7. If an event is only reasonably possible, then only note disclosure is required. If the possibility of a contingent liability occurring is only remote, then neither recording in the accounts nor note disclosure is required.
8. Gross pay is the amount an employee actually earns. Net pay, the amount an employee is paid, is gross pay reduced by both mandatory and voluntary deductions, such as FICA taxes, union dues, federal income taxes, etc. Gross pay should be recorded as salaries and wages expense.
9. Both employees and employers are required to pay FICA taxes.
10. No. When an employer withholds federal or state income taxes from employee paychecks, the employer is merely acting as a collection agent for the taxing body. Since the employer holds employees' funds, these withholdings are a liability for the employer until they are remitted to the government.

Questions Chapter 11 (Continued)

11. FICA stands for Federal Insurance Contribution Act; FUTA stands for Federal Unemployment Tax Act; and SUTA stands for State Unemployment Tax Act.
12. A W-2 statement contains the employee's name, address, social security number, wages, tips, other compensation, social security taxes withheld, wages subject to social security taxes, and federal, state and local income taxes withheld.
13. Payroll deductions can be classified as either mandatory (required by the government) or voluntary (not required by the government). Mandatory deductions include FICA taxes and income taxes. Examples of voluntary deductions are health and life insurance premiums, pension contributions, union dues, and charitable contributions.
14. The employee earnings record is used in: (1) determining when an employee has earned the maximum earnings subject to FICA taxes, (2) filing state and federal payroll tax returns, and (3) providing each employee with a statement of gross earnings and tax withholdings for the year.
15. (a) The three types of taxes are: (1) FICA, (2) federal unemployment, and (3) state unemployment.
(b) The tax liability accounts are classified as current liabilities in the balance sheet. Payroll tax expense is classified under operating expenses in the income statement.
16. The main internal control objectives associated with payrolls are: (1) to safeguard company assets from unauthorized payments of payrolls and (2) to assure the accuracy and reliability of the accounting records pertaining to payrolls.
17. The four functions associated with payroll are: (1) hiring employees, (2) timekeeping, (3) preparing the payroll, and (4) paying the payroll.
- *18. Two additional types of fringe benefits are:
 - (1) Paid absences—vacation pay, sick pay, and paid holidays.
 - (2) Post-retirement benefits—pensions and health care and life insurance.
- *19. Paid absences refer to compensation paid by employers to employees for vacations, sickness, and holidays. When the payment of such compensation is probable and the amount can be reasonably estimated, a liability should be accrued for paid future absences which employees have earned. When this amount cannot be reasonably estimated, the potential liability should be disclosed.
- *20. Post-retirement benefits consist of payments by employers to retired employees for: (1) pensions and (2) health care and life insurance.
- *21. A 401(K) works as follows: an employee can contribute up to a certain percentage of pay into a 401(K) plan and employers will match a percentage of the employee's contribution.
- *22. A defined contribution plan defines the contribution that an employer will make but not the benefit that the employee will receive. In a defined benefit plan, the employer agrees to pay a defined amount to retirees based on employees meeting certain eligibility standards.

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 11-1

- (a) A note payable due in two years is a long-term liability, not a current liability.
- (b) \$30,000 of the mortgage payable is a current maturity of long-term debt. This amount should be reported as a current liability; the remainder should be reported as a long-term liability.
- (c) Interest payable is a current liability because it will be paid out of current assets in the near future.
- (d) Accounts payable is a current liability because it will be paid out of current assets in the near future.

BRIEF EXERCISE 11-2

July 1	Cash	60,000	
	Notes Payable		60,000
Dec. 31	Interest Expense	3,000	
	Interest Payable ($\$60,000 \times 10\% \times 1/2$).....		3,000

BRIEF EXERCISE 11-3

Sales tax payable

- (1) Sales = $\$15,600 = (\$16,380 \div 1.05)$
- (2) Sales taxes payable = $\$780 = (\$15,600 \times 5\%)$

Mar. 16	Cash	16,380	
	Sales Revenue		15,600
	Sales Taxes Payable.....		780

BRIEF EXERCISE 11-4

Cash	840,000	
Unearned Ticket Revenue		840,000
(To record sale of 4,000 season tickets)		
Unearned Ticket Revenue.....	70,000	
Ticket Revenue		70,000
(To record basketball ticket revenues earned)		

BRIEF EXERCISE 11-5

- (a) Working capital = \$4,594,772 – \$1,717,728 = \$2,877,044 (thousand)
 (b) Current ratio = \$4,594,772 ÷ \$1,717,728 = 2.67:1

BRIEF EXERCISE 11-6

Dec. 31	Warranty Expense	4,500	
	Warranty Liability		4,500
	[(1,000 X 5%) X \$90]		

BRIEF EXERCISE 11-7

Gross earnings:			
	Regular pay (40 X \$16)	\$640.00	
	Overtime pay (5 X \$24)	<u>120.00</u>	<u>\$760.00</u>
	Gross earnings		\$760.00
	Less: FICA taxes payable (\$760 X 7.65%).....	\$ 58.14	
	Federal income taxes payable	<u>95.00</u>	<u>153.14</u>
	Net pay		<u>\$606.86</u>

BRIEF EXERCISE 11-8

Jan. 15	Salaries and Wages Expense	760.00	
	FICA Taxes Payable (\$808 X 7.65%)		58.14
	Federal Income Taxes Payable		95.00
	Salaries and Wages Payable		606.86
Jan. 15	Salaries and Wages Payable.....	606.86	
	Cash.....		606.86

BRIEF EXERCISE 11-9

Jan. 31	Payroll Tax Expense.....	11,080	
	FICA Taxes Payable (\$80,000 X 7.65%)		6,120
	Federal Unemployment Taxes Payable (\$80,000 X .8%).....		640
	State Unemployment Taxes Payable (\$80,000 X 5.4%)		4,320

BRIEF EXERCISE 11-10

- | | |
|----------------------|---------------------------|
| (a) Timekeeping | (c) Preparing the payroll |
| (b) Hiring employees | (d) Paying the payroll |

*BRIEF EXERCISE 11-11

Jan. 31	Vacation Benefits Expense (70 X \$120)	8,400	
	Vacation Benefits Payable		8,400

SOLUTIONS FOR DO IT! REVIEW EXERCISES

DO IT! 11-1

1. $\$70,000 \times 6\% \times 5/12 = \$1,750$
2. $\$42,000/1.05 = \$40,000$; $\$40,000 \times 5\% = \$2,000$
3. $\$45,000 \times 2/6 = \$15,000$

DO IT! 11-2

(a) Current liabilities

Notes payable.....	\$ 40,000
Accounts payable	63,000
Long-term debt due within one year.....	90,000
Unearned service revenue.....	70,000
Salaries and wages payable.....	32,000
Lawsuit liability	25,000
Total current liabilities	<u>\$320,000</u>

(b) Working capital = Current assets – Current liabilities = \$570,000 – \$320,000 = \$250,000

Current ratio: Current assets ÷ Current liabilities = \$570,000 ÷ \$320,000 = 1.78:1

DO IT! 11-3

(a) Net pay: \$80,000 – (7.65% X \$80,000) – \$14,000 – \$1,600 = \$58,280

(b) Salaries and Wages Expense	80,000	
FICA Taxes Payable.....		6,120
Federal Income Taxes Payable		14,000
State Income Taxes Payable		1,600
Salaries and Wages Payable.....		58,280

DO IT! 11-4

Payroll Tax Expense	16,620	
FICA Taxes Payable (\$120,000 X 7.65%)		9,180
Federal Unemployment Taxes Payable.....		960
State Unemployment Taxes Payable.....		6,480

SOLUTIONS TO EXERCISES

EXERCISE 11-1

July 1, 2014		
Cash	50,000	
Notes Payable		50,000
November 1, 2014		
Cash	60,000	
Notes Payable		60,000
December 31, 2014		
Interest Expense		
(\$50,000 X 8% X 6/12)	2,000	
Interest Payable		2,000
Interest Expense		
(\$60,000 X 6% X 2/12)	600	
Interest Payable		600
February 1, 2015		
Notes Payable	60,000	
Interest Payable	600	
Interest Expense	300	
Cash		60,900
April 1, 2015		
Notes Payable	50,000	
Interest Payable	2,000	
Interest Expense	1,000	
Cash		53,000

EXERCISE 11-2

(a)	June 1	Cash Notes Payable	90,000	
				90,000
(b)	June 30	Interest Expense Interest Payable [(\$90,000 X 8%) X 1/12]	600	
				600
(c)	Dec. 1	Notes Payable Interest Payable (\$90,000 X 8% X 6/12) Cash.....	90,000	
			3,600	93,600
(d)				\$3,600

EXERCISE 11-3

POOLE COMPANY

Apr. 10	Cash		31,500	
		Sales Revenue		30,000
		Sales Taxes Payable.....		1,500

WATERMAN COMPANY

15	Cash		25,680	
		Sales Revenue (\$25,680 ÷ 1.07)		24,000
		Sales Taxes Payable (\$25,680 – \$24,000).....		1,680

EXERCISE 11-4

(a)	Nov. 30	Cash	300,000	
		Unearned Subscription Revenue		
		(15,000 X \$20)		300,000
(b)	Dec. 31	Unearned Subscription Revenue	25,000	
		Subscription Revenue		
		(\$300,000 X 1/12)		25,000
(c)	Mar. 31	Unearned Subscription Revenue	75,000	
		Subscription Revenue		
		(\$300,000 X 3/12)		75,000

EXERCISE 11-5

(a) Estimated warranties outstanding:

<u>Month</u>	<u>Estimate</u>	<u>Units Defective</u>	<u>Outstanding</u>
November	900	600	300
December	<u>960</u>	<u>400</u>	<u>560</u>
Total	<u>1,860</u>	<u>1,000</u>	<u>860</u>

Estimated warranty liability—860 X \$15 = \$12,900.

(b)	Warranty Expense (1,860 X \$15)	27,900	
	Warranty Liability		27,900
	Warranty Liability	15,000	
	Repair Parts		15,000
(c)	Warranty Liability (500 X \$15)	7,500	
	Repair Parts		7,500

EXERCISE 11-6

- (a) If a contingency is remote (unlikely to occur), it need not be recorded or disclosed.
- (b) Since the contingency is probable and reasonably estimable, the liability should be recorded in the accounts. In addition, the details should be disclosed in the notes to the financial statements. The journal entry is:

Lawsuit Loss	1,000,000	
Lawsuit Liability		1,000,000

- (c) If a contingency is reasonably possible, it need not be recorded, but must be disclosed in the notes to the financial statements.

EXERCISE 11-7

- (a) **YOUNGER ONLINE COMPANY**
Partial Balance Sheet

Current liabilities	
Accounts payable	\$ 73,000
Mortgage payable.....	30,000
Unearned ticket revenue.....	24,000
Warranty liability	18,000
Sales taxes payable	10,000
Interest payable.....	8,000
Total current liabilities	<u>\$163,000</u>

- (b) Younger Online Company's working capital is \$137,000 and its current ratio is 1.84:1. Although a current ratio of 2:1 has been considered the standard for a good credit rating, many companies operate successfully with a current ratio below 2:1.

EXERCISE 11-8

- (a) Working capital = \$7,450 – \$7,714 = (\$264) million
- (b) Current ratio = \$7,450 ÷ \$7,714 = .97:1

EXERCISE 11-9

(a) Current ratio

$$\begin{array}{l} 2013 \quad \$9,598 \div \$5,839 = 1.64:1 \\ 2014 \quad \$10,795 \div \$4,897 = 2.20:1 \end{array}$$

Working capital

$$\begin{array}{l} 2013 \quad \$9,598 - \$5,839 = \$3,759 \text{ million} \\ 2014 \quad \$10,795 - \$4,897 = \$5,898 \text{ million} \end{array}$$

(b) Current ratio

$$\$10,595 \div \$4,697 = 2.26:1$$

Working capital

$$\$10,595 - \$4,697 = \$5,898 \text{ million}$$

It would make its current ratio increase slightly, but its working capital would remain the same.

EXERCISE 11-10

(a) 1. Regular 40 X \$16 = \$640
Overtime 2 X \$24 = 48
Gross earnings \$688

2. FICA taxes—\$52.63 = (\$688 X 7.65%).

3. Federal income taxes \$61.

4. State income taxes \$13.76 = (\$688 X 2%).

5. Net pay \$535.61 = (\$688.00 – \$52.63 – \$61.00 – \$13.76 – \$25.00).

(b) Salaries and Wages Expense.....	688.00	
FICA Taxes Payable		52.63
Federal Income Taxes Payable.....		61.00
State Income Taxes Payable		13.76
Health Insurance Payable		25.00
Salaries and Wages Payable		535.61

EXERCISE 11-11

- J. Seligman** $\$4,500 \times 7.65\% = \344.25 . Seligman's total gross earnings for the year are $\$98,000 = (\$93,500 + \$4,500)$, which is below the $\$110,100$ maximum for Social Security taxes.
- L. Marshall** $(\$2,000 \times 6.2\%) + (\$4,500 \times 1.45\%) = \$189.25$. Marshall's total gross earnings for the year are $\$112,600 (\$108,100 + \$4,500)$. Thus, only $\$2,000$ of the gross earnings ($\$4,500 - \$2,500$) for this pay period are subject to Social Security taxes. In addition, $\$4,500$ is subject to Medicare (1.45%) taxes.
- R. Eby** $(\$3,500 \times 6.2\%) + (\$4,500 \times 1.45\%) = \$282.25$. Eby's total gross earnings for the year are $\$111,100 (\$106,600 + \$4,500)$. Thus, only $\$3,500$ of the gross earnings ($\$4,500 - \$1,000$) for this pay period are subject to Social Security taxes. In addition, $\$4,500$ is subject to Medicare (1.45%) taxes.
- T. Olson** $(\$4,500 \times 1.45\%) = \65.25 . Olson's gross earnings prior to this pay exceed the maximum amount subject to Social Security taxes. However, all of the gross earnings in the December 31 pay period are subject to Medicare taxes.

EXERCISE 11-12

(a) See next page.

(b)	Jan. 31	Salaries and Wages Expense.....	1,880.00	
		FICA Taxes Payable		143.82
		Federal Income Taxes Payable.....		129.00
		Health Insurance Payable.....		60.00
		Salaries and Wages Payable		1,547.18
	Jan. 31	Payroll Tax Expense.....	260.38	
		FICA Taxes Payable		143.82
		Federal Unemployment Taxes Payable ($\$1,880 \times .8\%$).....		15.04
		State Unemployment Taxes Payable ($\$1,880 \times 5.4\%$).....		101.52

(a)

RAMIREZ COMPANY
Payroll Register
For the Week Ending January 31

<u>Employee</u>	<u>Total Hours</u>	<u>Earnings</u>			<u>Deductions</u>				<u>Net Pay</u>
		<u>Regular</u>	<u>Overtime</u>	<u>Gross Pay</u>	<u>FICA Taxes</u>	<u>Federal Income Taxes</u>	<u>Health Insurance</u>	<u>Total</u>	
L. Helton	46	\$ 480.00	\$108.00	\$ 588.00	\$ 44.98	\$ 34.00	\$10.00	\$ 88.98	\$ 499.02
R. Kenseth	42	560.00	42.00	602.00	46.05	37.00	25.00	108.05	493.95
D. Tavaras	44	600.00	90.00	690.00	52.79	58.00	25.00	135.79	554.21
Totals		<u>\$1,640.00</u>	<u>\$240.00</u>	<u>\$1,880.00</u>	<u>\$143.82</u>	<u>\$129.00</u>	<u>\$60.00</u>	<u>\$332.82</u>	<u>\$1,547.18</u>

EXERCISE 11-13

- (a) (1) \$ 900 [\$10,000 see (2) below – \$9,100].
 (2) \$10,000 (FICA taxes \$765 ÷ 7.65%).
 (3) \$ 400 (\$10,000 X 4%).
 (4) \$ 2,405 (\$10,000 – \$7,595).
 (5) \$10,000

(b) Feb. 28	Salaries and Wages Expense	10,000	
	FICA Taxes Payable		765
	Federal Income Taxes Payable		1,140
	State Income Taxes Payable		400
	Union Dues Payable		100
	Salaries and Wages Payable		7,595
28	Salaries and Wages Payable	7,595	
	Cash		7,595

EXERCISE 11-14

(a)	FICA tax (\$770,000 X 6.2%) + (\$850,000 X 1.45%)	\$60,065
	SUTA tax (\$100,000 X 5.4%)	5,400
	FUTA tax (\$100,000 X 0.8%)	800
	Total payroll tax.....	<u>\$66,265</u>

(b)	Payroll Tax Expense	66,265	
	FICA Taxes Payable		60,065
	State Unemployment Taxes Payable		5,400
	Federal Unemployment Taxes Payable		800

***EXERCISE 11-15**

Mar. 31	Vacation Benefits Expense		
	(10 X 2 X \$140)	2,800	
	Vacation Benefits Payable		2,800
31	Pension Expense (\$40,000 X 10%)	4,000	
	Pension Liability		4,000

***EXERCISE 11-16**

1.	Vacation Benefits Expense	14,000	
	Vacation Benefits Payable		
	(20 X 5 X \$140)		14,000
2.	Pension Expense	100,000	
	Cash		70,000
	Pension Liability		30,000
3.	Vacation Benefits Payable	2,520	
	Cash (18 X 1 X \$140)		2,520

SOLUTIONS TO PROBLEMS

PROBLEM 11-1A

(a)	Jan. 5	Cash.....	20,520	
		Sales Revenue (\$20,520 ÷ 108%).....		19,000
		Sales Taxes Payable (\$20,520 – \$19,000).....		1,520
	12	Unearned Service Revenue.....	10,000	
		Service Revenue		10,000
	14	Sales Taxes Payable.....	7,700	
		Cash		7,700
	20	Accounts Receivable.....	48,600	
		Sales Revenue.....		45,000
		Sales Taxes Payable (900 X \$50 X 8%).....		3,600
	21	Cash.....	27,000	
		Notes Payable.....		27,000
	25	Cash.....	12,420	
		Sales Revenue (\$12,420 ÷ 108%).....		11,500
		Sales Taxes Payable (\$12,420 – \$11,500).....		920
(b)	(1) Jan. 31	Interest Expense	60	
		Interest Payable		60
		(\$27,000 X 8% X 1/12 = \$180; \$180 X 1/3)		
	(2) Jan. 31	Warranty Expense (\$45,000 X 7%)	3,150	
		Warranty Liability		3,150

PROBLEM 11-1A (Continued)

(c) Current liabilities

Notes payable	\$27,000
Accounts payable	52,000
Unearned service revenue (\$16,000 – \$10,000)	6,000
Sales taxes payable (\$1,520 + \$3,600 + \$920)	6,040
Warranty liability	3,150
Interest payable	60
Total current liabilities	<u>\$94,250</u>

PROBLEM 11-2A

(a)	Jan. 2	Inventory.....	30,000	
		Accounts Payable.....		30,000
	Feb. 1	Accounts Payable.....	30,000	
		Notes Payable.....		30,000
	Mar. 31	Interest Expense		
		(\$30,000 X 9% X 2/12).....	450	
		Interest Payable.....		450
	Apr. 1	Notes Payable.....	30,000	
		Interest Payable.....	450	
		Cash.....		30,450
	July 1	Equipment.....	71,000	
		Cash.....		11,000
		Notes Payable.....		60,000
	Sept. 30	Interest Expense		
		(\$60,000 X 10% X 3/12).....	1,500	
		Interest Payable.....		1,500
	Oct. 1	Notes Payable.....	60,000	
		Interest Payable.....	1,500	
		Cash.....		61,500
	Dec. 1	Cash.....	24,000	
		Notes Payable.....		24,000
	Dec. 31	Interest Expense		
		(\$24,000 X 8% X 1/12).....	160	
		Interest Payable.....		160

PROBLEM 11-2A (Continued)

(b)

Notes Payable			
4/1	30,000	2/1	30,000
10/1	60,000	7/1	60,000
		12/1	24,000
		12/31 Bal.	24,000

Interest Payable			
4/1	450	3/31	450
10/1	1,500	9/30	1,500
		12/31	160
		12/31 Bal.	160

Interest Expense	
3/31	450
9/30	1,500
12/31	160
12/31 Bal.	2,110

(c) Current liabilities			
Notes payable.....		\$24,000	
Interest payable.....		<u>160</u>	\$24,160

(d) Total interest is \$2,110.

(a)

MANN HARDWARE
Payroll Register
For the Week Ending March 15, 2014

Employee	Hours	Earnings			Deductions				Total	Net Pay	Salaries and Wages Expense
		Regular	Over-time	Gross Pay	FICA	Federal Income Tax	State Income Tax	United Fund			
Ben Abel	40	600.00	0	600.00	45.90	72.00	18.00	5.00	140.90	459.10	600.00
Rita Hager	42	640.00	48.00	688.00	52.63	53.00	20.64	5.00	131.27	556.73	688.00
Jack Never	44	520.00	78.00	598.00	45.75	60.00	17.94	8.00	131.69	466.31	598.00
Sue Perez	46	520.00	117.00	637.00	48.73	61.00	19.11	5.00	133.84	503.16	637.00
Totals		<u>2,280.00</u>	<u>243.00</u>	<u>2,523.00</u>	<u>193.01</u>	<u>246.00</u>	<u>75.69</u>	<u>23.00</u>	<u>537.70</u>	<u>1,985.30</u>	<u>2,523.00</u>

PROBLEM 11-3A

PROBLEM 11-3A (Continued)

(b)	Mar. 15	Salaries and Wages Expense	2,523.00	
		FICA Taxes Payable		193.01
		Federal Income Taxes Payable.....		246.00
		State Income Taxes Payable.....		75.69
		United Fund Contributions Payable.....		23.00
		Salaries and Wages Payable		1,985.30
	15	Payroll Tax Expense	349.43	
		FICA Taxes Payable		
		(\$2,523 X 7.65%)		193.01
		Federal Unemployment Taxes Payable (\$2,523 X .8%)		20.18
		State Unemployment Taxes Payable (\$2,523 X 5.4%)		136.24
(c)	Mar. 16	Salaries and Wages Payable	1,985.30	
		Cash		1,985.30
(d)	Mar. 31	FICA Taxes Payable		
		(\$193.01 + \$193.01).....	386.02	
		Federal Income Taxes Payable	246.00	
		Cash		632.02

PROBLEM 11-4A

(a)	Jan. 10	Union Dues Payable 870.00 Cash 870.00	870.00
	12	FICA Taxes Payable..... 760.00 Federal Income Taxes Payable 1,204.60 Cash 1,964.60	1,964.60
	15	U.S. Savings Bonds Payable..... 360.00 Cash 360.00	360.00
	17	State Income Taxes Payable 108.95 Cash 108.95	108.95
	20	Federal Unemployment Taxes Payable 288.95 State Unemployment Taxes Payable 1,954.40 Cash 2,243.35	2,243.35
	31	Salaries and Wages Expense..... 58,000.00 FICA Taxes Payable 4,437.00 Federal Income Taxes Payable 2,158.00 State Income Taxes Payable 454.00 United Fund Contributions Payable 1,888.00 Union Dues Payable..... 400.00 Salaries and Wages Payable 48,663.00	48,663.00
	31	Salaries and Wages Payable..... 48,663.00 Cash 48,663.00	48,663.00

PROBLEM 11-4A (Continued)

(b)	1.	Jan.	31	Payroll Tax Expense.....	8,033.00	
				FICA Taxes Payable		
				(\$58,000 X 7.65%)		4,437.00
				Federal Unemployment Taxes		
				Payable (\$58,000 X .8%)		464.00
				State Unemployment Taxes		
				Payable (\$58,000 X 5.4%)		3,132.00
	*2.		31	Vacation Benefits Expense		
				(\$58,000 X 6%)	3,480.00	
				Vacation Benefits Payable.....		3,480.00

PROBLEM 11-5A

(a)	Salaries and Wages Expense	570,000	
	FICA Taxes Payable		38,645*
	Federal Income Taxes Payable		174,400
	State Income Taxes Payable		17,100
	United Fund Contributions Payable		27,500
	Health Insurance Payable		17,200
	Salaries and Wages Payable		295,155

(\$490,000 X 6.2%) + (\$570,000 X 1.45%)

(b)	Payroll Tax Expense	43,100	
	FICA Taxes Payable		38,645
	Federal Unemployment Taxes Payable		
	(\$135,000 X .8%)		1,080
	State Unemployment Taxes Payable		
	(\$135,000 X 2.5%)		3,375

(c)		Federal Income Tax	State Income Tax	FICA	FICA Tax
	Wages, Tips, Other Compensation	Withheld	Withheld	Wages	Withheld
	Employee				
	Maria Sandoval	\$59,000	\$28,500	\$1,770 (1)	\$59,000
	Jennifer Mingenback	26,000	10,200	780 (2)	26,000

(1) \$59,000 X 3%.

(2) \$26,000 X 3%.

PROBLEM 11-1B

(a)	Jan. 1	Cash.....	30,000	
		Notes Payable.....		30,000
	5	Cash.....	11,130	
		Sales Revenue ($\$11,130 \div 106\%$).....		10,500
		Sales Taxes Payable ($\$11,130 - \$10,500$).....		630
	12	Unearned Service Revenue.....	8,000	
		Service Revenue.....		8,000
	14	Sales Taxes Payable.....	5,000	
		Cash.....		5,000
	20	Accounts Receivable.....	34,980	
		Sales Revenue.....		33,000
		Sales Taxes Payable ($750 \times \$44 \times 6\%$).....		1,980
	25	Cash.....	16,536	
		Sales Revenue ($\$16,536 \div 106\%$).....		15,600
		Sales Taxes Payable ($\$16,536 - \$15,600$).....		936
(b)	(1) Jan. 31	Interest Expense.....	150	
		Interest Payable ($\$30,000 \times 6\% \times 1/12$).....		150
	(2) Jan. 31	Warranty Expense ($\$33,000 \times 5\%$).....	1,650	
		Warranty Liability.....		1,650

PROBLEM 11-1B (Continued)

(c) Current liabilities

Notes payable	\$30,000
Accounts payable	35,000
Unearned service revenue (\$12,000 – \$8,000)	4,000
Sales taxes payable (\$630 + \$1,980 + \$936)	3,546
Warranty liability	1,650
Interest payable	150
Total current liabilities	<u>\$74,346</u>

PROBLEM 11-2B

(a)	Jan. 2	Inventory	20,000	
		Accounts Payable		20,000
	Feb. 1	Accounts Payable.....	20,000	
		Notes Payable		20,000
	Mar. 31	Interest Expense		
		(\$20,000 X 12% X 2/12)	400	
		Interest Payable		400
	Apr. 1	Notes Payable	20,000	
		Interest Payable	400	
		Cash.....		20,400
	July 1	Equipment.....	52,000	
		Cash.....		12,000
		Notes Payable		40,000
	Sept. 30	Interest Expense		
		(\$40,000 X 10% X 3/12)	1,000	
		Interest Payable		1,000
	Oct. 1	Notes Payable	40,000	
		Interest Payable	1,000	
		Cash.....		41,000
	Dec. 1	Cash	25,000	
		Notes Payable		25,000
	Dec. 31	Interest Expense		
		(\$25,000 X 12% X 1/12)	250	
		Interest Payable		250

PROBLEM 11-2B (Continued)

(b)

Notes Payable			
4/1	20,000	2/1	20,000
10/1	40,000	7/1	40,000
		12/1	25,000
			12/31 Bal.
			25,000

Interest Payable			
4/1	400	3/31	400
10/1	1,000	9/30	1,000
		12/31	250
			12/31 Bal.
			250

Interest Expense	
3/31	400
9/30	1,000
12/31	250
12/31 Bal.	1,650

(c) **Current liabilities**

Notes payable	\$25,000	
Interest payable	<u>250</u>	\$25,250

(d) **Total interest is \$1,650.**

PROBLEM 11-3B

(a)

OTTO DRUG STORE
Payroll Register
For the Week Ended February 15, 2014

Employee	Hours	Earnings			Deductions					Net Pay	Salaries and Wages Expense
		Regular	Over- time	Gross Pay	FICA	Federal Income Tax	State Income Tax	United Fund	Total		
M. Dingler	39	468.00	0	468.00	35.80	34.00	14.04	0	83.84	384.16	468.00
D. Patel	42	480.00	36.00	516.00	39.47	20.00	15.48	10.00	84.95	431.05	516.00
L. Grimmett	44	400.00	60.00	460.00	35.19	51.00	13.80	5.00	104.99	355.01	460.00
A. Bly	46	400.00	90.00	490.00	37.49	36.00	14.70	5.00	93.19	396.81	490.00
Totals		<u>1,748.00</u>	<u>186.00</u>	<u>1,934.00</u>	<u>147.95</u>	<u>141.00</u>	<u>58.02</u>	<u>20.00</u>	<u>366.97</u>	<u>1,567.03</u>	<u>1,934.00</u>

PROBLEM 11-3B (Continued)

(b)	Feb. 15	Salaries and Wages Expense.....	1,934.00	
		FICA Taxes Payable		147.95
		Federal Income Taxes Payable		141.00
		State Income Taxes Payable		58.02
		United Fund Contributions Payable		20.00
		Salaries and Wages Payable		1,567.03
	15	Payroll Tax Expense	267.86	
		FICA Taxes Payable (\$1,934 X 7.65%)		147.95
		Federal Unemployment Taxes Payable (\$1,934 X .8%)		15.47
		State Unemployment Taxes Payable (\$1,934 X 5.4%)		104.44
(c)	Feb. 16	Salaries and Wages Payable.....	1,567.03	
		Cash		1,567.03
(d)	Feb. 28	FICA Taxes Payable (\$147.95 + \$147.95)	295.90	
		Federal Income Taxes Payable	141.00	
		Cash		436.90

PROBLEM 11-4B

(a)	Jan. 10	Union Dues Payable 200 Cash 200	200
	12	FICA Taxes Payable 540 Federal Income Taxes Payable..... 1,100 Cash 1,640	1,640
	15	U.S. Savings Bonds Payable 300 Cash 300	300
	17	State Income Taxes Payable 210 Cash 210	210
	20	Federal Unemployment Taxes Payable 54 State Unemployment Taxes Payable 365 Cash 419	419
	31	Salaries and Wages Expense 42,000 FICA Taxes Payable 3,213 Federal Income Taxes Payable..... 2,540 State Income Taxes Payable..... 500 Union Dues Payable 300 United Fund Contributions Payable..... 1,300 Salaries and Wages Payable..... 34,147	34,147
	31	Salaries and Wages Payable 34,147 Cash 34,147	34,147

PROBLEM 11-4B (Continued)

(b)	1.	Jan. 31	Payroll Tax Expense	5,817	
			FICA Taxes Payable		
			(\$42,000 X 7.65%)		3,213
			Federal Unemployment Taxes		
			Payable (\$42,000 X .8%)		336
			State Unemployment Taxes		
			Payable (\$42,000 X 5.4%)		2,268
	*2.	31	Vacation Benefits Expense		
			(\$42,000 X 5%)	2,100	
			Vacation Benefits Payable		2,100

PROBLEM 11-5B

(a) Salaries and Wages Expense.....	390,000	
FICA Taxes Payable		26,735*
Federal Income Taxes Payable.....		78,000
State Income Taxes Payable		11,700
United Fund Contributions Payable.....		17,000
Health Insurance Payable		12,000
Salaries and Wages Payable		244,565

(\$340,000 X 6.2%) + (\$390,000 X 1.45%)

(b) Payroll Tax Expense	29,705	
FICA Taxes Payable		26,735
Federal Unemployment Taxes Payable		
(\$90,000 X .8%)		720
State Unemployment Taxes Payable		
(\$90,000 X 2.5%)		2,250

(c)		Federal Income Tax Withheld	State Income Tax Withheld	FICA Wages	FICA Tax Withheld
	Wages, Tips, Other Compensation				
Employee		Withheld	Withheld	Wages	Withheld
A. Chavez	\$50,000	\$18,300	\$1,500 (1)	\$50,000	\$3,825
E. Kremer	24,000	4,800	720 (2)	24,000	1,836

(1) \$50,000 X 3%.

(2) \$24,000 X 3%.

COMPREHENSIVE PROBLEM SOLUTION

(a)	1. Interest Payable	250	
	Cash		250
	2. Inventory	261,100	
	Accounts Payable		261,100
	3. Cash.....	468,600	
	Sales Revenue.....		440,000
	Sales Taxes Payable		28,600
	Cost of Goods Sold	265,000	
	Inventory.....		265,000
	4. Accounts Payable.....	230,000	
	Cash.....		230,000
	5. Sales Taxes Payable.....	17,000	
	Cash.....		17,000
	6. Other Operating Expenses.....	30,000	
	Cash.....		30,000
	7. Salaries and Wages Expense	60,000	
	FICA Taxes Payable (7.65% X \$60,000) .		4,590
	Federal Income Taxes Payable		8,900
	Salaries and Wages Payable		46,510

COMPREHENSIVE PROBLEM SOLUTION (Continued)

Adjusting Entries

8. Interest Expense	250	
Interest Payable.....		250
9. Insurance Expense (\$6,000 ÷ 12)	500	
Prepaid Insurance		500
10. Depreciation Expense		
(\$38,000 – \$2,000) ÷ (5 X 12).....	600	
Accumulated Depreciation—		
Equipment.....		600
11. Payroll Tax Expense	8,310	
FICA Taxes Payable (7.65% X 60,000)....		4,590
Federal Unemployment Taxes		
Payable (0.8% X 60,000)		480
State Unemployment Taxes		
Payable (5.4% X 60,000)		3,240

COMPREHENSIVE PROBLEM SOLUTION (Continued)

(a) and (b) Optional T accounts

Cash			
Bal.	30,000	(1)	250
(3)	468,600	(4)	230,000
		(5)	17,000
		(6)	30,000
Bal.	221,350		

Inventory			
Bal.	30,750	(3)	265,000
(2)	261,100		
Bal.	26,850		

Prepaid Insurance			
Bal.	6,000	Adj.	500
Bal.	5,500		

Equipment			
Bal.	38,000		

Accumulated Depreciation— Equipment			
		Adj.	600

Notes Payable			
		Bal.	50,000

Interest Payable			
(1)	250	Bal.	250
		adj.	250
		Bal.	250

Accounts Payable			
(4)	230,000	Bal.	13,750
		(2)	261,100
		Bal.	44,850

Sales Taxes Payable			
(5)	17,000	(3)	28,600
		Bal.	11,600

Salaries and Wages Payable			
		(7)	46,510

FICA Taxes Payable			
		(7)	4,590
		adj.	4,590
		Bal.	9,180

Federal Income Taxes Payable			
		(7)	8,900

Federal Unemployment Taxes Payable			
		adj.	480

State Unemployment Taxes Payable			
		adj.	3,240

COMPREHENSIVE PROBLEM SOLUTION (Continued)

(a) and (b) (Continued)

Owner's Capital

	Bal.	40,750
--	------	--------

Depreciation Expense

adj.	600	
------	-----	--

Sales Revenue

(3)	440,000	
-----	---------	--

Insurance Expense

adj.	500	
------	-----	--

Cost of Goods Sold

(3)	265,000	
-----	---------	--

Other Operating Expenses

(6)	30,000	
-----	--------	--

Salaries and Wages Expense

(7)	60,000	
-----	--------	--

Interest Expense

adj.	250	
------	-----	--

Payroll Tax Expense

adj.	8,310	
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COMPREHENSIVE PROBLEM SOLUTION (Continued)

(b)

**MORGAN COMPANY
Trial Balance
January 31, 2014**

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash.....	\$221,350	
Inventory	26,850	
Prepaid Insurance.....	5,500	
Equipment	38,000	
Accumulated Depreciation— Equipment		\$ 600
Accounts Payable		44,850
Interest Payable		250
Sales Taxes Payable.....		11,600
Salaries and Wages Payable		46,510
FICA Taxes Payable.....		9,180
Federal Income Taxes Payable		8,900
Federal Unemployment Taxes Payable		480
State Unemployment Taxes Payable		3,240
Notes Payable		50,000
Owner's Capital.....		40,750
Sales Revenue		440,000
Cost of Goods Sold	265,000	
Salaries and Wages Expense.....	60,000	
Payroll Tax Expense	8,310	
Depreciation Expense	600	
Insurance Expense	500	
Other Operating Expenses	30,000	
Interest Expense	250	
	<u>\$656,360</u>	<u>\$656,360</u>

COMPREHENSIVE PROBLEM SOLUTION (Continued)

**(c) MORGAN COMPANY
Income Statement
For the Month Ended January 31, 2014**

Sales revenue		\$440,000
Cost of goods sold.....		<u>265,000</u>
Gross profit		175,000
Operating expenses		
Salaries and wages expense	\$60,000	
Payroll tax expense	8,310	
Depreciation expense	600	
Insurance expense	500	
Other operating expenses	<u>30,000</u>	
Total operating expenses		<u>99,410</u>
Income from operations		75,590
Other expenses and losses		
Interest expense.....		<u>250</u>
Net income.....		<u>\$75,340</u>

**MORGAN COMPANY
Owner's Equity Statement
For the Month Ended January 31, 2014**

Owner's Capital, 12/31/13	\$ 40,750
Add: Net income	<u>75,340</u>
Owner's Capital, 1/31/14	<u>\$116,090</u>

COMPREHENSIVE PROBLEM SOLUTION (Continued)

MORGAN COMPANY
Balance Sheet
January 31, 2014

Current Assets		
Cash	\$221,350	
Inventory	26,850	
Prepaid insurance	<u>5,500</u>	
Total current assets		\$253,700
Property, Plant, and Equipment		
Equipment.....	38,000	
Accumulated depreciation— equipment	<u>600</u>	
Total plant assets		<u>37,400</u>
Total assets		<u>\$291,100</u>
Current Liabilities		
Accounts payable.....	\$ 44,850	
Salaries and wages payable	46,510	
Sales taxes payable.....	11,600	
FICA taxes payable.....	9,180	
Federal income taxes payable.....	8,900	
State unemployment taxes payable	3,240	
Federal unemployment taxes payable	480	
Interest payable	<u>250</u>	
Total current liabilities.....		125,010
Long-term liabilities		
Notes payable		<u>50,000</u>
Total liabilities.....		<u>175,010</u>
Owner's equity		
Owner's capital		<u>116,090</u>
Total liabilities and owner's equity		<u>\$291,100</u>

- (a) Total current liabilities at September 24, 2011, \$27,970 million. Apple's total current liabilities increased by \$7,248 (\$27,970 – \$20,722) million over the prior year.
- (b) In Note 2 under the subheading "Commitments and Contingencies," Apple states: "We recognize liabilities for contingencies and commitments when a loss is probable and estimable."
- (c) The components of current liabilities are:

Accounts payable	\$ 9,247
Accrued expenses	14,632
Deferred revenue	<u>4,091</u>
Total current liabilities.....	<u>\$27,970</u>

- (a) PepsiCo's largest current liability was "accounts payable and other current liabilities" at \$11,757 million. Its total current liabilities were \$18,154 million. Coca-Cola's largest current liability was "loans and notes payable" at \$12,871 million. Its total current liabilities were \$24,283 million.

(b)	(in millions)	PepsiCo	Coca-Cola
(1)	Working capital	$\$17,441 - \$18,154 = (\$713)$	$\$25,497 - \$24,283 = \$1,214$
(2)	Current ratio	$\frac{\$17,441}{\$18,154} = 0.96:1$	$\frac{\$25,497}{\$24,283} = 1.05:1$

- (c) Based on this information, it appears that both companies are only moderately liquid.

- (a) Amazon's largest current liability was "accounts payable" at \$11,145 million. Its total current liabilities were \$14,896 million. Wal-Mart's largest current liability was also "accounts payable" at \$36,608 million. Its total current liabilities were \$62,300 million.

(b)	(in millions)	Amazon	Wal-Mart
(1)	Working capital	$\$17,490 - \$14,896 = \$2,594$	$\$54,975 - \$62,300 = (\$7,325)$
(2)	Current ratio	$\frac{\$17,494}{\$14,896} = 1.17:1$	$\frac{\$54,975}{\$62,300} = 0.88:1$

- (c) Based on this information, it appears that both companies are not very liquid. Amazon's working capital was \$9,919 million more than Wal-Mart's while its current ratio was 33% higher.

- (a) **A worker who performs services for you is your employee if you can control what will be done and how it will be done. This is so even when you give the employee freedom of action. What matters is that you have the right to control the details of how the services are performed. See Pub. 15-A, Employer's Supplemental Tax Guide, for more information on how to determine whether an individual providing services is an independent contractor or an employee.**

Generally, people in business for themselves are not employees. For example, doctors, lawyers, veterinarians, construction contractors, and others in an independent trade in which they offer their services to the public are usually not employees. However, if the business is incorporated, corporate officers who work in the business are employees.

- (b) **Payments for the services of a child under the age of 18 who works for his or her parent in a trade or business (sole proprietorship or a partnership in which each partner is a parent of the child) are not subject to social security and Medicare taxes. If these services are for work other than in a trade or business, such as domestic work in the parent's private home, they are not subject to social security and Medicare taxes until the child reaches 21.**
- (c) **Any employee who does not have a social security card can get one by completing Form SS-5, Application for a Social Security Card, and submitting the necessary documentation.**
- (d) **Tips your employee receives are generally subject to withholding. Your employee must report cash tips to you by the 10th of the month after the month the tips are received. The report should include tips you paid over to the employee for charge customers and tips the employee received directly from customers. No report is required for months when tips are less than \$20. Your employee reports the tips on Form 4070, Employee's Report of Tips to Employer, or on a similar statement.**

BYP 11-4 (Continued)

- (e) In general, you must deposit federal income tax withheld and both the employer and employee social security and Medicare taxes (minus any advance EIC payments). You must deposit by using the Electronic Federal Tax Payment System (EFTPS) or by mailing or delivering a check, money order, or cash to an authorized financial institution or Federal Reserve bank using Form 8109 Federal Tax Deposit Coupon. However, some taxpayers are required to deposit by electronic funds transfer.**

(a) BANISTER SERVICES INC.

<u>Months</u>	<u>Number of Employees</u>	<u>Days Worked</u>	<u>Daily Rate</u>	<u>Cost</u>
January–March	2	60 (20 X 3)	\$80	\$ 9,600
April–May	3	50 (25 X 2)	80	12,000
June–October	2	90 (18 X 5)	80	14,400
November–December	3	46 (23 X 2)	80	11,040
Total Cost				<u><u>\$47,040</u></u>

PERMANENT EMPLOYEES

Salaries (\$22,000 X 2)		\$44,000
Additional payroll costs		
FICA taxes (7.65% X \$44,000)	\$3,366	
Federal unemployment taxes (.8% X \$14,000)	112	
State unemployment taxes (5.4% X \$14,000)	756	
Medical and dental insurance (2 X \$40 X 12)	<u>960</u>	<u>5,194</u>
		<u><u>\$49,194</u></u>

Cunningham Processing Company would save \$2,154 (\$49,194 – \$47,040), as shown, by discharging the two employees and accepting the Banister Services Inc. plan.

(b) Carol should consider the following additional factors:

- (1) The effect on the morale of the continuing employees if two employees are terminated.
- (2) The anticipated efficiency of Banister Services Inc. workers compared to the efficiency of the two employees who would be terminated.
- (3) The effect on management control and supervision of using Banister Services Inc. personnel.
- (4) The time that may be required to integrate the different Banister Services Inc. personnel into the Cunningham Processing Company's procedures.

Dear Mr. Falcon:

In response to your request, I wish to explain the types of taxes that are involved in determining the payroll and in recording and paying employer payroll taxes.

The taxes that are involved in determining the payroll are as follows:

- 1. FICA taxes. These taxes were enacted by Congress to provide workers with supplemental retirement, employment disability, and medical benefits. These benefits are financed by a tax levied on employees' earnings. The tax rate and tax base are set by Congress and both change intermittently. Our text uses a rate of 7.65% on the first \$110,100 of gross earnings. FICA taxes are withheld by the employer and then remitted to the government. These taxes are not an expense to the employer.**
- 2. Federal income taxes. Employers are required to withhold federal income taxes from employees each pay period. The amount depends on the employee's gross earnings, the number of allowances claimed by the employee, and the length of the pay period. The amounts withheld are remitted by the employer to the government. These taxes are not an expense to the employer.**
- 3. State and city income taxes. Where applicable, these income taxes are similar to federal income taxes.**

There are three types of payroll taxes that are levied on employers that are recognized as payroll tax expense by the employer.

- 1. FICA taxes. The employer must match each employee's FICA contribution. The employer's tax is subject to the same rate and maximum earnings applicable to the employee.**

BYP 11-6 (Continued)

- 2. Federal unemployment taxes. These taxes provide benefits to employees who lose their jobs through no fault of their own. The tax is 6.2% on the first \$7,000 of gross earnings paid to each employee during a calendar year. The employer is allowed a maximum credit of 5.4% on the federal rate for contributions to state unemployment taxes.**

- 3. State unemployment taxes. These taxes also provide benefits to employees who lose their jobs. The basic rate is usually 5.4% on the first \$7,000 of wages paid to an employee during the year.**

Very truly yours,

- (a) The stakeholders in this situation are:
- Robert Eberle, owner and manager.
 - Sixteen part-time employees of Robert's.
 - Anne Farr, public accountant.
- (b) Not withholding federal and state taxes from employees' payroll is both illegal and unethical. Also, not paying FICA taxes, and state and federal unemployment taxes, is illegal and unethical.
- (c) Anne Farr, as Robert's public accountant, should not be an accomplice to improper payroll deductions and accounting. Anne should constantly remind Robert of the consequences of his illegal payroll payments and the unrecorded payments. She should advise Robert that not only is the government deprived of its proper tax revenues, but employees are deprived of social security and possibly Medicare credits as well as worker's compensation insurance.
- (d) An important internal control principle is to make no payments from cash receipts. All cash receipts should be deposited daily intact in the bank and all disbursements should be made by properly authorized and signed checks.

The answer to these questions depends on the state in which the student resides. It also will be depend on the year chosen, although we expect that the results will be much the same whether they pick any rates between 2012 and 2014. We provide a solution for this problem using the state of Wisconsin as an example. It should be pointed out that certain taxes can be deducted for computing federal income tax but are ignored in our computation.

- (a) Wisconsin state income taxes for a single person with a taxable income of \$60,000 is \$3,701. The tax rate between \$17,680 and \$132,580 is \$950.30 plus 6.5 percent over \$17,680. Therefore the computation is as follows:

$$(\$60,000 - \$17,680) \times 6.5\% = \$2,751$$

Base rate	<u>950</u>
Total state income tax	<u>\$3,701</u>

- (b) The property tax on a \$200,000 home at 2.1% is \$4,200.
- (c) The state gasoline tax in Wisconsin is 32.9 cents per gallon and the federal gasoline tax is 18.4 cents per gallon. Your total taxes on gasoline are computed as follows:
- $$300 \text{ gallons} \times (\$0.329 + \$0.184) = \underline{\$154}$$
- (d) In Wisconsin the state sales tax rate is 5% and excludes food and prescription drug purchases. Therefore the sales tax is \$200 (\$4,000 X 5%).
- (e) The social security rate is 7.65% on income of \$60,000 or \$4,590.
- (f) Federal income taxes for a single person with a taxable income of \$60,000 is \$11,030. The tax rate between \$35,350 and \$85,650 is \$4,867 plus 25% over \$35,350. Therefore the computation is as follows:

$$(\$60,000 - \$35,350) \times 25\% = \$ 6,163$$

Base rate	<u>4,867</u>
Total tax	<u>\$11,030</u>

BYP 11-8 (Continued)

The total taxes paid therefore are computed as follows, based on a \$60,000 income amount:

State income tax	\$ 3,701
Property tax on home	4,200
Gasoline tax	154
Sales tax	200
Social security tax	4,590
Federal income tax	<u>11,030</u>
Total tax	<u>\$23,875</u>

The percentage of total taxes to income is therefore 40% ($\$23,875/\$60,000$), given the information above.

- (a) **Current liabilities** is used principally to designate obligations whose liquidation is reasonably expected to require the use of existing resources properly classifiable as current assets, or the creation of other current liabilities. See paragraphs 210-10-45-5 through 45-12.
- (b) **A contingent liability** is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain (gain contingency) or loss (loss contingency) to an entity that will ultimately be resolved when one or more future events occur or fail to occur.
- (c) **Disclosure of a contingent liability** should be made if there is at least a reasonable possibility that a loss or an additional loss may have been incurred and either of the following conditions exists:
 - a. **An accrual is not made for a loss contingency** because conditions for accrual are not met.
 - b. **An exposure to loss exists in excess of the amount accrued.**

IFRS EXERCISES

IFRS 11-1

Under IFRS a provision is defined as a liability of uncertain timing or amount. Examples include warranties, employee vacation pay, and anticipated losses.

IFRS 11-2

Under IFRS a contingent liability is defined as a possible obligation that is not recognized in the financial statements but may be disclosed if certain criteria are met. Under IAS 37 contingent liabilities are defined as being:

- A possible obligation that arises from past events whose existence will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the entity; or
- A present obligation that arises from past events but is not recognized because:
 1. It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 2. The amount of the obligation cannot be measured with sufficient reliability.

IFRS 11-3

The similarities between GAAP and IFRS include: (1) the basic definition of a liability, (2) liabilities are normally reported in the order of their liquidity, and (3) preferred stock that is required to be redeemed at a specific point in time in the future must be reported as debt.

Differences between GAAP and IFRS include: (1) GAAP allows straight line amortization of bond discounts and premiums, but IFRS requires the effective-interest method in all cases, (2) IFRS does not isolate unamortized bond discount or premium in a separate account, (3) IFRS splits the proceeds from convertible bonds into debt and equity components, and (4) GAAP uses a “rules-based” approach to account for leases while IFRS is more conceptual in its approach.

- (a) Trade payables represent amounts payable for goods and services received. It took Zetar an average of 48 days to pay its trade payables.**
- (b) Provisions relate to amounts potentially payable to the vendors of companies and businesses acquired by Zetar. The estimates are based on management's judgment and assessment of future budgets, revenues, margins, and cash flows. These estimates are subject to change as a result of changing economic and competitive conditions.**
- (c) The weighted average interest rate on bank loans and overdrafts was 3.2% in 2011 and 4.0% in 2010.**

