

# CHAPTER 10

## CURRENT LIABILITIES

### CLASS DISCUSSION QUESTIONS

1. To match revenues and expenses properly, the liability to cover product warranties should be recorded in the period during which the sale of the product is made.
2. When the defective product is repaired, the repair costs would be recorded by debiting Product Warranty Payable and crediting Cash, Supplies, or another appropriate account.
3. Yes. Since the \$5,000 is payable within one year, Company A should present it as a current liability at September 30.
4.
  - a. Income or withholding taxes, social security, and Medicare
  - b. Employees Income Tax Payable, Social Security Tax Payable, and Medicare Tax Payable
5. There is a ceiling on (a) the social security portion of the FICA tax and (d) federal unemployment compensation tax.
6. The deductions from employee earnings are for amounts owed (liabilities) to others for such items as federal taxes, state and local income taxes, and contributions to pension plans.
7. Yes. Unemployment compensation taxes are paid by the employer on the first \$7,000 of annual earnings for each employee. Therefore, hiring two employees, each earning \$12,500 per year, would require the payment of twice the unemployment tax than if only one employee, earning \$25,000, was hired.
8.
  1. c
  2. c
  3. a
  4. b
  5. b
9. The use of special payroll checks relieves the treasurer or other executives of the task of signing a large number of regular checks each payday. Another advantage of this system is that reconciling the regular bank statement is simplified. The paid payroll checks are returned by the bank separately from regular checks and are accompanied by a statement of the special bank account. Any balance shown on the bank's statement will correspond to the sum of the payroll checks outstanding because the amount of each deposit is exactly the same as the total amount of checks drawn.
10.
  - a. Input data that remain relatively unchanged from period to period (and therefore do not need to be reintroduced into the system frequently) are called *constants*.
  - b. Input data that differ from period to period are called *variables*.
11.
  - a. If employees' attendance records are kept and their preparation supervised in such a manner as to prevent errors and abuses, then one can be assured that wages paid are based on hours actually worked. The use of "In" and "Out" cards, whereby employees indicate by punching a time clock their time of arrival and departure, is especially useful. Employee identification cards or badges can be very helpful in giving additional assurance.
  - b. The requirement that the addition of names on the payroll be supported by written authorizations from the Personnel Department can help ensure that payroll checks are not being issued to fictitious persons. Endorsements on payroll checks can be compared with other samples of employees' signatures.
12. If the vacation payment is probable and can be reasonably estimated, the vacation pay expense should be recorded during the period in which the vacation privilege is earned.
13. Employee life expectancies, expected employee retirement dates, employee turnover, employee compensation levels, and investment income on pension contributions are factors that influence the future pension obligation of an employer.

## EXERCISES

### Ex. 10-1

**Current liabilities:**

Federal income taxes payable .....	\$ 42,000 <sup>1</sup>
Advances on magazine subscriptions .....	<u>155,250<sup>2</sup></u>
<b>Total current liabilities.....</b>	<b><u>\$197,250</u></b>

<sup>1</sup>\$120,000 × 35%

<sup>2</sup>6,900 × \$30 × 9/12 = \$155,250

The nine months of unfilled subscriptions are a current liability because Web World received payment prior to providing the magazines.

### Ex. 10-2

a.	1. Merchandise Inventory .....	196,000	
	Interest Expense .....	4,000 <sup>1</sup>	
	.....Notes Payable		200,000
	2. Notes Payable.....	200,000	
	.....Cash		200,000
b.	1. Notes Receivable .....	200,000	
	.....Sales		196,000
	.....Interest Revenue		4,000
	2. Cash .....	200,000	
	.....Notes Receivable		200,000

<sup>1</sup>\$200,000 × 8% × 90/360

**Ex. 10–3**

- a.  $\$90,000 \times 6\% \times 90/360 = \$1,350$  for each alternative.
- b. (1)  $\$90,000$  simple-interest note:  $\$90,000$  proceeds  
 (2)  $\$90,000$  discounted note:  $\$90,000 - \$1,350$  interest =  $\$88,650$  proceeds
- c. Alternative (1) is more favorable to the borrower. This can be verified by comparing the effective interest rates for each loan as follows:

Situation (1): 6% effective interest rate

$$(\$1,350 \times 360/90) \div \$90,000 = 6\%$$

Situation (2): 6.09% effective interest rate

$$(\$1,350 \times 360/90) \div \$88,650 = 6.09\%$$

The effective interest rate is higher for the second loan because the creditor lent only  $\$88,650$  in return for  $\$1,350$  interest over 90 days. In the simple-interest loan, the creditor must lend  $\$90,000$  for 90 days to earn the same  $\$1,350$  interest.

**Ex. 10–4**

a.	Accounts Payable.....	9,000		
	Notes Payable .....			9,000
b.	Notes Payable .....	9,000		
	Interest Expense.....	75*		
	Cash.....			9,075

$$*\$9,000 \times 5\% \times 60/360 = \$75$$

**Ex. 10–5**

a.	June 30	Building.....	730,000	
		Land .....	250,000	
		Note Payable .....		800,000
		Cash.....		180,000
b.	Dec. 31	Note Payable .....	40,000	
		Interest Expense ( $\$800,000 \times 8\% \times 1/2$ ).....	32,000	
		Cash.....		72,000
c.	June 30	Note Payable .....	40,000	
		Interest Expense ( $\$760,000 \times 8\% \times 1/2$ ).....	30,400	
		Cash.....		70,400

**Ex. 10–6**

- a. \$4,650,000, or the amount disclosed as the current portion of long-term debt.
- b. By the end of 2002, the bank credit line was reduced to \$299,000; thus, the bank credit line was nearly paid off in 2002. The difference between the \$34,783,000 that would be due in the coming period and the \$4,650,000 disclosed as the current portion must have been funded (i.e., replaced) by long-term notes payable. Indeed, of the \$50 million increase in the term loans (\$95 million – \$45 million), around \$35 million must have been used to eliminate the bank credit line.
- c. The current liabilities declined by \$4,351,000 (\$4,650,000 – \$299,000).

**Ex. 10–7**

a. Product Warranty Expense (2% × \$750,000) .....	15,000	
Product Warranty Payable .....		15,000
b. Product Warranty Payable .....	960	
Wages Payable.....		570
Supplies.....		390

**Ex. 10–8**

- a. The warranty liability represents estimated outstanding automobile warranty claims. Of these claims, \$14,166 million is estimated to be due during 2003, while the remainder (\$9,125 million) is expected to be paid after 2003. The distinction between short-term and long-term liabilities is important to creditors in order to accurately evaluate the near-term cash demands on the business, relative to the quick assets and other longer-term demands.
- b. Product Warranty Expense ..... 14,355,000,000  
     Product Warranty Payable ..... 14,355,000,000  
 $\$20,410 + X - \$12,000 = \$23,291$   
 $X = \$23,291 - \$20,410 + \$12,000$   
 $X = \$14,881 \text{ million}$
- c. The liability might have grown for a number of possible reasons. Often the estimated warranty liability will increase if the underlying product sales are also increasing, as was the case for Ford during this time. Alternatively, Ford’s actual claims experience might be declining. If the percent of sales estimate remained unchanged, this would cause the liability to potentially increase. This partially explains the increase, since only \$12,000 million in claims were assumed to be paid, while the current estimated claims payable was \$13,605 million at December 31, 2001. Lastly, Ford could be increasing its estimated warranty claims expense as a percent of current period sales.

**Ex. 10–9**

- a. Damage Awards and Fines ..... 670,000  
     EPA Fines Payable..... 390,000  
     Litigation Claims Payable ..... 280,000

*Note to Instructors:* The “damage awards and fines” would be disclosed on the income statement under “other expenses.”

- b. The company experienced a hazardous materials spill at one of its plants during the previous period. This spill has resulted in a number of lawsuits to which the company is a party. The Environmental Protection Agency (EPA) has fined the company \$390,000, which the company is contesting in court. Although the company does not admit fault, legal counsel believes that the fine payment is probable. In addition, an employee has sued the company. A \$280,000 out-of-court settlement has been reached with the employee. The EPA fine and out-of-court settlement have been accrued. There is one other outstanding lawsuit related to this incident. Counsel does not believe that the lawsuit has merit. Other lawsuits and unknown liabilities may arise from this incident.

**Ex. 10–10**

- a. Adjusting entry to accrue litigation contingency, 12/31/01:

Litigation Expenses and Losses.....	219,100,000	
Contingent Product and Tort Claims Payable		219,100,000

*Note to Instructors:* The actual titles in the accounts may vary from those illustrated in this answer and, in practice, will vary according to the nature of the contingency.

- b. Summary journal entry to pay claims in 2002:

Contingent Product and Tort Claims Payable .....	75,000,000	
Cash.....		75,000,000

- c. A liability must be recognized if the contingency is both estimable and probable. The note makes it clear that the claims have been ongoing across thousands of cases. This means it is possible to reasonably estimate the losses from the historical litigation experience. That is, the average loss per case could be determined and applied to the outstanding cases. In addition, a portion of the claim losses are known to be probable, again based upon past experience.

**Ex. 10–11**

a. Regular pay (40 hrs. × \$18).....		\$720
Overtime pay (10 hrs. × \$27) .....		<u>270</u>
Gross pay.....		<u>\$990</u>
b. Gross pay.....		\$990.00
Less: Social security tax (6.0% × \$990) .....	\$ 59.40	
Medicare tax (1.5% × \$990).....	14.85	
Federal withholding .....	<u>185.00</u>	<u>259.25</u>
Net pay .....		<u>\$730.75</u>

Ex. 10–12

	Consultant	Computer Programmer	Administrator
Regular earnings .....	\$2,500.00	\$1,600.00	\$ 800.00
Overtime earnings .....	<u>                    </u>	<u>360.00</u>	<u>120.00</u>
Gross pay .....	<u>\$2,500.00</u>	<u>\$1,960.00</u>	<u>\$ 920.00</u>
Less: Social security tax .....	\$ 0.00 <sup>1</sup>	\$ 66.00 <sup>2</sup>	\$ 55.20 <sup>3</sup>
Medicare tax .....	37.50	29.40	13.80
Federal income tax withheld <sup>4</sup> ...	<u>570.15</u>	<u>435.64</u>	<u>111.64</u>
Net pay .....	<u>\$ 607.65</u>	<u>\$ 531.04</u>	<u>\$ 180.64</u>
	<u>\$1,892.35</u>	<u>\$1,428.96</u>	<u>\$ 739.36</u>

<sup>1</sup> Gross pay exceeds \$100,000, so there is no social security tax withheld.

<sup>2</sup> [(\$100,000 – \$98,900) × 6%] = \$66.00

<sup>3</sup> \$920 × 6.0% = \$55.20

<sup>4</sup> The federal income tax withheld is determined from applying the calculation procedure associated with Exhibit 3, as follows:

Withholding calculations:	Consultant	Computer Programmer	Administrator
	\$2,500.00	\$1,960.00	\$ 920.00
	<u>– 463.76</u>	<u>– 404.14</u>	<u>– 473.46</u>
	\$2,036.24	\$1,555.86	\$ 446.54
	× 28%	× 28%	× 25%
	<u>\$ 570.15</u>	<u>\$ 435.64</u>	<u>\$ 111.64</u>

**Ex. 10–13**

**a. Summary: (1) \$224,800; (3) \$269,000; (8) \$4,460; (12) \$75,800**

**Details:**

.....	Net amount paid		\$189,000
.....	Total deductions		80,000
<b>(3)</b>	<b>Total earnings</b> .....	<b>\$269,000</b>	
.....	Overtime		44,200
<b>(1)</b>	<b>Regular</b> .....	<b><u>\$224,800</u></b>	
.....	Total deductions	\$	80,000
.....	Social security tax	\$	15,730
.....	Medicare tax		4,035
.....	Income tax withheld		47,915
.....	Medical insurance	<u>7,860</u>	<u>75,540</u>
<b>(8)</b>	<b>Union dues</b> .....	<b><u>\$ 4,460</u></b>	
.....	Total earnings		\$269,000
.....	Factory wages	\$135,400	
.....	Office salaries	<u>57,800</u>	<u>193,200</u>
<b>(12)</b>	<b>Sales salaries</b> .....	<b><u>\$ 75,800</u></b>	

<b>b.</b>	<b>Factory Wages Expense</b> .....	<b>135,400</b>	
	<b>Sales Salaries Expense</b> .....	<b>75,800</b>	
	<b>Office Salaries Expense</b> .....	<b>57,800</b>	
	<b>Social Security Tax Payable</b> .....		<b>15,730</b>
	<b>Medicare Tax Payable</b> .....		<b>4,035</b>
	<b>Employees Income Tax Payable</b> .....		<b>47,915</b>
	<b>Medical Insurance Payable</b> .....		<b>7,860</b>
	<b>Union Dues Payable</b> .....		<b>4,460</b>
	<b>Salaries Payable</b> .....		<b>189,000</b>
<b>c.</b>	<b>Salaries Payable</b> .....	<b>189,000</b>	
	<b>Cash</b> .....		<b>189,000</b>

**d. The amount of social security tax withheld, \$15,730, is \$410 less than 6.0% of the total earnings of \$269,000. This indicates that the cumulative earnings of some employees exceed \$100,000. Therefore, it is unlikely that this payroll was paid during the first few weeks of the calendar year.**

**Ex. 10–14**

Opry Sounds does have an internal control procedure that should detect the payroll error. Before funds are transferred from the regular bank account to the payroll account, the owner authorizes a voucher for the total amount of the week's payroll. The owner should catch the error, since the extra 360 hours will cause the weekly payroll to be substantially higher than usual.

**Ex. 10–15**

- a. Inappropriate. Access to the check-signing machine should be restricted.
- b. Appropriate. The use of a special payroll account assists in preventing fraud and makes it easier to reconcile the company's bank accounts.
- c. Appropriate. All changes to the payroll system, including wage rate increases, should be authorized by someone outside the Payroll Department.
- d. Inappropriate. Payroll should be informed when any employee is terminated. A supervisor or other individual could continue to clock in and out for the terminated employee and collect the extra paycheck.
- e. Inappropriate. Each employee should record his or her own time out for lunch. Under the current procedures, one employee could clock in several employees who are still out to lunch. The company would be paying employees for more time than they actually worked.

**Ex. 10–16**

a. Social security tax (6% × \$480,000).....	\$28,800	
Medicare tax (1.5% × \$540,000) .....	8,100	
State unemployment (4.3% × \$12,000).....	516	
Federal unemployment (0.8% × \$12,000).....	<u>96</u>	
		<u>\$37,512</u>
b. Payroll Taxes Expense.....	37,512	
Social Security Tax Payable.....		28,800
Medicare Tax Payable.....		8,100
State Unemployment Tax Payable.....		516
Federal Unemployment Tax Payable.....		96

**Ex. 10–17**

Tip Top Stores Inc. should not compute and report payroll taxes according to its fiscal year. Rather, employers are required to compute and report all payroll taxes on the calendar-year basis, regardless of the fiscal year they may use for financial reporting purposes. Thus, social security and FUTA maximum earnings limitations apply to the calendar-year payroll.

**Ex. 10–18**

Vacation Pay Expense.....	13,760	
Vacation Pay Payable ( $\$165,120 \times 1/12$ ) .....		13,760

**Ex. 10–19**

a. Dec. 31 Pension Expense .....	315,000	
Unfunded Pension Liability.....		315,000
b. Jan. 15 Unfunded Pension Liability.....	315,000	
Cash.....		315,000

**Ex. 10–20**

The \$1,032 million unfunded pension liability is the approximate amount of the pension obligation that exceeds the value of the accumulated net assets of the pension plan. Apparently, Procter & Gamble has underfunded its plan relative to the actuarial obligation that has accrued over time. This can occur when the company contributes less to the plan than the annual pension cost.

The obligation grows yearly by the amount of the periodic pension cost. Thus, the periodic pension cost is an actuarial measure of the amount of pension earned by employees during the year. The annual pension cost is determined by making actuarial assumptions about employee life expectancies, employee turnover, expected compensation levels, and interest.

**Ex. 10–21**

a. **Quick Ratio =  $\frac{\text{Quick Assets}}{\text{Current Liabilities}}$**

**December 31, 2005:  $\frac{\$530,000 + \$350,000}{\$800,000} = 1.10$**

**December 31, 2006:  $\frac{\$356,000 + \$400,000}{\$900,000} = 0.84$**

- b. **The quick ratio has been decreased between the two balance sheet dates. The major reason is a significant increase in inventory. Cash also declined, possibly to purchase the inventory. As a result, quick assets actually declined, while the current liabilities increased. While the quick ratio for December 31, 2006, is below 1.0, it is not yet at an alarming level. However, the trend suggests that the firm's current asset (working capital) management should be watched closely.**

**Ex. 10–22**

**a.**

	<b>Apple Computer Inc.</b>	<b>Dell Computer Corp.</b>
<b>Quick Ratio</b>	<b>2.96</b>	<b>0.81</b>

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

**Apple Computer Inc.:**

$$\text{Quick ratio} = \frac{\$5,388 - \$45 - \$441}{\$1,658} = 2.96$$

**Dell Computer Corp.:**

$$\text{Quick ratio} = \frac{\$8,924 - \$306 - \$1,394}{\$8,933} = 0.81$$

- b.** It is clear that Apple Computer's short-term liquidity is stronger than Dell's. Apple's quick ratio is 215% higher. Apple has a much stronger relative cash and short-term investment position than does Dell. Apple's cash and short-term investments are 80% of total current assets (261% of current liabilities), compared to Dell's 52% of total current assets (52% of current liabilities). In addition, Dell's relative accounts payable position is larger than Apple's, indicating the possibility that Dell has longer supplier payment terms than does Apple. A quick ratio of 2.96 for Apple suggests ample flexibility to make strategic investments with its excess cash, while a quick ratio of 0.81 for Dell indicates an efficient but tight quick asset management policy.

## PROBLEMS

### Prob. 10–1A

1.

Feb. 15	Merchandise Inventory .....	30,000	
	Accounts Payable—Ranier Co. ....		30,000
Mar. 17	Accounts Payable—Ranier Co. ....	30,000	
	Notes Payable .....		30,000
Apr. 16	Notes Payable.....	30,000	
	Interest Expense ( $\$30,000 \times 30/360 \times 5\%$ ).....	125	
	Cash.....		30,125
July 15	Cash .....	40,000	
	Notes Payable .....		40,000
	25 Tools .....	43,950	
	Interest Expense ( $\$45,000 \times 120/360 \times 7\%$ ).....	1,050	
	Notes Payable .....		45,000
Oct. 13	Notes Payable.....	40,000	
	Interest Expense ( $\$40,000 \times 90/360 \times 6\%$ ).....	600	
	Notes Payable .....		40,000
	Cash.....		600
Nov. 12	Notes Payable.....	40,000	
	Interest Expense ( $\$40,000 \times 30/360 \times 9\%$ ).....	300	
	Cash.....		40,300
	22 Notes Payable.....	45,000	
	Cash.....		45,000
Dec. 1	Office Equipment .....	80,000	
	Notes Payable .....		60,000
	Cash.....		20,000
	17 Litigation Loss .....	41,000	
	Litigation Claims Payable .....		41,000
	31 Notes Payable.....	6,000	
	Interest Expense ( $\$6,000 \times 8\% \times 30/360$ ).....	40	
	Cash.....		6,040

**Prob. 10–1A Concluded**

2. a. Product Warranty Expense .....	15,680	
..... Product Warranty Payable		15,680
b. Interest Expense .....	360	
..... Interest Payable		360
(\$6,000 × 8% × 30/360 × 9 = \$360)		

Prob. 10–2A

1. a. Dec. 30	Sales Salaries Expense .....	185,300	
	Warehouse Salaries Expense .....	47,800	
	Office Salaries Expense .....	74,900	
	Employees Income Tax Payable.....		55,440
	Social Security Tax Payable .....		17,402
	Medicare Tax Payable .....		4,620
	Bond Deductions Payable .....		10,780
	Group Insurance Payable.....		17,556
	Salaries Payable .....		202,202
b. Dec. 30	Payroll Taxes Expense .....	22,722	
	Social Security Tax Payable .....		17,402
	Medicare Tax Payable .....		4,620
	State Unemployment Tax Payable .....		588 <sup>1</sup>
	Federal Unemployment Tax Payable ....		112 <sup>2</sup>
	<sup>1</sup> \$14,000 × 4.2%		
	<sup>2</sup> \$14,000 × 0.8%		
2. a. Dec. 30	Sales Salaries Expense .....	185,300	
	Warehouse Salaries Expense .....	47,800	
	Office Salaries Expense .....	74,900	
	Employees Income Tax Payable.....		55,440
	Social Security Tax Payable .....		18,480 <sup>3</sup>
	Medicare Tax Payable .....		4,620 <sup>4</sup>
	Bond Deductions Payable .....		10,780
	Group Insurance Payable.....		17,556
	Salaries Payable .....		201,124
	<sup>3</sup> \$308,000 × 6%		
	<sup>4</sup> \$308,000 × 1.5%		
b. Jan. 5	Payroll Taxes Expense .....	38,500	
	Social Security Tax Payable .....		18,480
	Medicare Tax Payable .....		4,620
	State Unemployment Tax Payable .....		12,936 <sup>5</sup>
	Federal Unemployment Tax Payable ....		2,464 <sup>6</sup>
	<sup>5</sup> \$308,000 × 4.2%		
	<sup>6</sup> \$308,000 × 0.8%		

Prob. 10–3A

1.

<u>Employee</u>	<u>Gross Earnings</u>	<u>Federal Income Tax Withheld</u>	<u>Social Security Tax Withheld</u>	<u>Medicare Tax Withheld</u>
Alvarez	\$124,200	\$31,050	\$ 6,000*	\$1,863
Carver	6,000	900	360	90
Felix	40,800	6,528	2,448	612
Lydall	22,000	3,850	1,320	330
Porter	102,000	24,480	6,000*	1,530
Song	36,000	6,480	2,160	540
Walker	58,800	11,172	<u>3,528</u>	<u>882</u>
			<u>\$21,816</u>	<u>\$5,847</u>

\*\$100,000 maximum × 6%

2. a. Social security tax paid by employer .....	\$21,816
b. Medicare tax paid by employer .....	5,847
c. Earnings subject to unemployment compensation tax, \$7,000 for all employees except Carver, who has only \$6,000 in gross earnings. Thus, total earnings subject to SUTA and FUTA are [(6 × \$7,000) + \$6,000]. State unemployment compensation tax: \$48,000 × 4.2%.....	2,016
d. Federal unemployment compensation tax: \$48,000 × 0.8% .....	<u>384</u>
e. Total payroll taxes expense .....	<u>\$30,063</u>

**Prob. 10–4A**

**1. 2006**

Dec.	12	Sales Salaries Expense .....	3,366.50	
		Office Salaries Expense .....	2,900.00	
		Delivery Salaries Expense.....	1,959.00	
		Social Security Tax Payable .....		493.53
		Medicare Tax Payable .....		123.38
		Employees Income Tax Payable.....		1,402.06
		Medical Insurance Payable .....		469.20
		Salaries Payable .....		5,737.33
2.	Dec.	12	Salaries Payable.....	5,737.33
			Cash.....	5,737.33
3.	Dec.	12	Payroll Taxes Expense .....	671.91
			Social Security Tax Payable .....	493.53
			Medicare Tax Payable .....	123.38
			State Unemployment Tax Payable .....	45.00
			Federal Unemployment Tax Payable ....	10.00
4.	Dec.	15	Employees Income Tax Payable.....	1,402.06
			Social Security Tax Payable.....	987.06
			Medicare Tax Payable.....	246.76
			Cash.....	2,635.88

Prob. 10–5A

1. PAYROLL FOR WEEK ENDING *December 7, 2006*

Name	Total Hours	Earnings			Deductions				Paid		Accounts Debited		
		Regular	Overtime	Total	Social Security Tax	Medicare Tax	Federal Income Tax	U.S. Savings Bonds	Total	Net Amount	Ck. No.	Sales Salaries Expense	Office Salaries Expense
M	45.00	1,120.00	210.00	1,330.00	79.80	19.95	292.60	35.00	427.35	902.65	818	1,330.00	
N	25.00	550.00		550.00	33.00	8.25	82.50		123.75	426.25	819	550.00	
O				2,350.00	0.00	35.25	564.00	50.00	649.25	1,700.75	820		2,350.00
P	40.00	720.00		720.00	43.20	10.80	144.00	15.00	213.00	507.00	821	720.00	
Q	40.00	800.00		800.00	48.00	12.00	168.00	10.00	238.00	562.00	822	800.00	
R	46.00	740.00	166.50	906.50	54.39	13.60	190.37		258.36	648.14	823	906.50	
S	40.00	640.00		640.00	38.40	9.60	121.60	15.00	184.60	455.40	824	640.00	
T				1,000.00	60.00	15.00	215.00		290.00	710.00	825		1,000.00
U	50.00	1,440.00	540.00	1,980.00	118.80	29.70	455.40	40.00	643.90	1,336.10	826	1,980.00	
		<u>6,010.00</u>	<u>916.50</u>	<u>10,276.50</u>	<u>475.59</u>	<u>154.15</u>	<u>2,233.47</u>	<u>165.00</u>	<u>3,028.21</u>	<u>7,248.29</u>		<u>6,926.50</u>	<u>3,350.00</u>

2. Sales Salaries Expense.....	6,926.50
Office Salaries Expense.....	3,350.00
Social Security Tax Payable .....	475.59
Medicare Tax Payable .....	154.15
Employees Federal Income Tax Payable.....	2,233.47
Bond Deductions Payable.....	165.00
Salaries Payable .....	7,248.29

**Prob. 10–6A**

1.

Dec.	2	Bond Deductions Payable .....	2,400	
		Cash .....		2,400
	3	Social Security Tax Payable .....	8,276	
		Medicare Tax Payable .....	2,178	
		Employees Federal Income Tax Payable .....	13,431	
		Cash .....		23,885
	14	Operations Salaries Expense .....	42,500	
		Officers Salaries Expense .....	18,500	
		Office Salaries Expense .....	11,000	
		Social Security Tax Payable .....		3,960
		Medicare Tax Payable .....		1,080
		Employees Federal Income Tax Payable .....		12,816
		Employees State Income Tax Payable .....		3,240
		Bond Deductions Payable .....		1,200
		Medical Insurance Payable .....		1,500
		Salaries Payable .....		48,204
	14	Salaries Payable .....	48,204	
		Cash .....		48,204
	14	Payroll Taxes Expense .....	5,396	
		Social Security Tax Payable .....		3,960
		Medicare Tax Payable .....		1,080
		State Unemployment Tax Payable .....		285
		Federal Unemployment Tax Payable .....		71
	17	Social Security Tax Payable .....	7,920	
		Medicare Tax Payable .....	2,160	
		Employees Federal Income Tax Payable .....	12,816	
		Cash .....		22,896
	18	Medical Insurance Payable .....	9,000	
		Cash .....		9,000

**Prob. 10–6A Continued**

<b>Dec. 28</b>	<b>Operations Salaries Expense.....</b>	<b>43,200</b>	
	<b>Officers Salaries Expense.....</b>	<b>18,200</b>	
	<b>Office Salaries Expense.....</b>	<b>11,400</b>	
	<b>Social Security Tax Payable.....</b>		<b>3,931</b>
	<b>Medicare Tax Payable.....</b>		<b>1,092</b>
	<b>Employees Federal Income Tax Payable.....</b>		<b>12,958</b>
	<b>Employees State Income Tax Payable.....</b>		<b>3,276</b>
	<b>Bond Deductions Payable.....</b>		<b>1,200</b>
	<b>Salaries Payable.....</b>		<b>50,343</b>
<b>28</b>	<b>Salaries Payable.....</b>	<b>50,343</b>	
	<b>Cash.....</b>		<b>50,343</b>
<b>28</b>	<b>Payroll Taxes Expense.....</b>	<b>5,231</b>	
	<b>Social Security Tax Payable.....</b>		<b>3,931</b>
	<b>Medicare Tax Payable.....</b>		<b>1,092</b>
	<b>State Unemployment Tax Payable.....</b>		<b>166</b>
	<b>Federal Unemployment Tax Payable.....</b>		<b>42</b>
<b>30</b>	<b>Bond Deductions Payable.....</b>	<b>2,400</b>	
	<b>Cash.....</b>		<b>2,400</b>
<b>30</b>	<b>Employees State Income Tax Payable.....</b>	<b>19,584</b>	
	<b>Cash.....</b>		<b>19,584</b>
<b>31</b>	<b>Pension Expense.....</b>	<b>50,000</b>	
	<b>Cash.....</b>		<b>46,000</b>
	<b>Unfunded Pension Liability.....</b>		<b>4,000</b>
<b>2.</b>			
<b>Dec. 31</b>	<b>Operations Salaries Expense.....</b>	<b>4,320</b>	
	<b>Officers Salaries Expense.....</b>	<b>1,820</b>	
	<b>Office Salaries Expense.....</b>	<b>1,140</b>	
	<b>Salaries Payable.....</b>		<b>7,280</b>
<b>31</b>	<b>Vacation Pay Expense.....</b>	<b>13,200</b>	
	<b>Vacation Pay Payable.....</b>		<b>13,200</b>

Prob. 10–6A Continued

*This solution is applicable only if the P.A.S.S. Software that accompanies the text is used.*

**BROWNIE POINTS GIFTS INC.**  
**Income Statement**  
**For the Period Ended December 31, 20—**

Sales.....	\$ 3,771,200	100.00
Cost of merchandise sold .....	<u>1,646,000</u>	<u>43.65</u>
Gross profit.....	<u>\$ 2,125,200</u>	<u>56.35</u>
Operating expenses:		
Selling expenses:		
Operations salaries expense .....	\$ 1,036,020	27.47
Advertising expense.....	47,100	1.25
Depreciation expense—store equipment .....	13,041	0.35
Store supplies expense.....	36,926	0.98
Miscellaneous selling expense.....	<u>9,050</u>	<u>0.24</u>
Total selling expenses .....	<u>\$ 1,142,137</u>	<u>30.29</u>
Administrative expenses:		
Officers salaries expense .....	\$ 443,320	11.76
Office salaries expense.....	269,940	7.16
Rent expense .....	74,500	1.98
Heating and lighting expense.....	29,650	0.79
Insurance expense.....	27,551	0.73
Miscellaneous administrative expense.....	6,800	0.18
Payroll taxes expense .....	133,871	3.55
Pension expense .....	50,000	1.33
Vacation pay expense .....	<u>13,200</u>	<u>0.35</u>
Total administrative expenses .....	<u>\$ 1,048,832</u>	<u>27.81</u>
Total operating expenses.....	<u>\$ 2,190,969</u>	<u>58.10</u>
Net loss .....	<u>\$ (65,769)</u>	<u>(1.74)</u>

Prob. 10–6A Continued

**BROWNIE POINTS GIFTS INC.**  
**Retained Earnings Statement**  
**For the Period Ended December 31, 20—**

Retained earnings (beginning of period) .....		<b>\$615,759</b>
Net loss .....	<b>\$ 65,769</b>	
Plus dividends .....	<u><b>150,000</b></u>	
Decrease in retained earnings .....		<u><b>215,769</b></u>
Retained earnings (end of period) .....		<u><b>\$399,990</b></u>

Prob. 10–6A Concluded

**BROWNIE POINTS GIFTS INC.**  
**Balance Sheet**  
**December 31, 20—**

**Assets**

Cash .....	\$ 30,074	
Accounts receivable .....	188,203	
Merchandise inventory .....	281,627	
Prepaid insurance .....	4,050	
Store supplies .....	<u>7,825</u>	
<b>Total current assets</b> .....		<b>\$ 511,779</b>
Store equipment.....	\$ 162,300	
Accumulated depreciation—store equipment.....	<u>(44,980)</u>	
<b>Total plant assets</b> .....		<u><b>117,320</b></u>
<b>Total assets</b> .....		<u><b>\$ 629,099</b></u>

**Liabilities**

Accounts payable.....	\$ 78,061	
Salaries payable .....	7,280	
Social security tax payable .....	7,862	
Medicare tax payable .....	2,184	
Employees federal income tax payable .....	12,958	
State unemployment tax payable .....	1,651	
Federal unemployment tax payable .....	413	
Medical insurance payable.....	1,500	
Unfunded pension liability .....	4,000	
Vacation pay payable.....	<u>13,200</u>	
<b>Total liabilities</b> .....		<b>\$ 129,109</b>

**Stockholders' Equity**

Capital stock.....	\$ 100,000	
Retained earnings .....	<u>399,990</u>	
<b>Total liabilities and stockholders' equity</b> .....		<u><b>\$ 629,099</b></u>

**Prob. 10–1B**

1.

<b>Apr. 7</b>	<b>Cash .....</b>	<b>20,000</b>	
	<b>Notes Payable .....</b>		<b>20,000</b>
<b>May 10</b>	<b>Equipment.....</b>	<b>87,600</b>	
	<b>Interest Expense (\$90,000 × 120/360 × 8%).....</b>	<b>2,400</b>	
	<b>Notes Payable .....</b>		<b>90,000</b>
<b>June 6</b>	<b>Notes Payable.....</b>	<b>20,000</b>	
	<b>Interest Expense (\$20,000 × 60/360 × 6%).....</b>	<b>200</b>	
	<b>Notes Payable .....</b>		<b>20,000</b>
	<b>Cash.....</b>		<b>200</b>
<b>July 6</b>	<b>Notes Payable.....</b>	<b>20,000</b>	
	<b>Interest Expense (\$20,000 × 30/360 × 9%).....</b>	<b>150</b>	
	<b>Cash.....</b>		<b>20,150</b>
<b>Aug. 3</b>	<b>Merchandise Inventory .....</b>	<b>18,000</b>	
	<b>Accounts Payable—Hamilton Co. ....</b>		<b>18,000</b>
<b>Sept. 2</b>	<b>Accounts Payable—Hamilton Co. ....</b>	<b>18,000</b>	
	<b>Notes Payable .....</b>		<b>18,000</b>
	<b>7 Notes Payable.....</b>	<b>90,000</b>	
	<b>Cash.....</b>		<b>90,000</b>
<b>Nov. 1</b>	<b>Notes Payable.....</b>	<b>18,000</b>	
	<b>Interest Expense (\$18,000 × 60/360 × 7.5%).....</b>	<b>225</b>	
	<b>Cash.....</b>		<b>18,225</b>
	<b>15 Store Equipment .....</b>	<b>100,000</b>	
	<b>Notes Payable .....</b>		<b>63,000</b>
	<b>Cash.....</b>		<b>37,000</b>
<b>Dec. 15</b>	<b>Notes Payable.....</b>	<b>9,000</b>	
	<b>Interest Expense (\$9,000 × 6% × 30/360).....</b>	<b>45</b>	
	<b>Cash.....</b>		<b>9,045</b>
	<b>21 Litigation Loss .....</b>	<b>45,000</b>	
	<b>Litigation Claims Payable .....</b>		<b>45,000</b>

**Prob. 10–1B Concluded**

<b>2. a. Product Warranty Expense .....</b>	<b>13,900</b>	
<b>..... Product Warranty Payable</b>		<b>13,900</b>
<b>b. Interest Expense .....</b>	<b>414</b>	
<b>..... Interest Payable</b>		<b>414</b>
<b>(\$9,000 × 6% × 46/360 × 6 = \$414)</b>		

**Prob. 10–2B**

<b>1. a. Dec. 30</b>	<b>Sales Salaries Expense .....</b>	<b>436,000</b>	
	<b>Warehouse Salaries Expense .....</b>	<b>93,400</b>	
	<b>Office Salaries Expense .....</b>	<b>178,600</b>	
	<b>Employees Income Tax Payable.....</b>		<b>127,440</b>
	<b>Social Security Tax Payable .....</b>		<b>40,002</b>
	<b>Medicare Tax Payable .....</b>		<b>10,620</b>
	<b>Bond Deductions Payable .....</b>		<b>24,780</b>
	<b>Group Insurance Payable.....</b>		<b>40,356</b>
	<b>Salaries Payable .....</b>		<b>464,802</b>
<b>b. Dec. 30</b>	<b>Payroll Taxes Expense .....</b>	<b>51,450</b>	
	<b>Social Security Tax Payable .....</b>		<b>40,002</b>
	<b>Medicare Tax Payable .....</b>		<b>10,620</b>
	<b>State Unemployment Tax Payable .....</b>		<b>684<sup>1</sup></b>
	<b>Federal Unemployment Tax Payable ....</b>		<b>144<sup>2</sup></b>
	<sup>1</sup> <b>\$18,000 × 3.8%</b>		
	<sup>2</sup> <b>\$18,000 × 0.8%</b>		
<b>2. a. Dec. 30</b>	<b>Sales Salaries Expense .....</b>	<b>436,000</b>	
	<b>Warehouse Salaries Expense .....</b>	<b>93,400</b>	
	<b>Office Salaries Expense .....</b>	<b>178,600</b>	
	<b>Employees Income Tax Payable.....</b>		<b>127,440</b>
	<b>Social Security Tax Payable .....</b>		<b>42,480<sup>3</sup></b>
	<b>Medicare Tax Payable .....</b>		<b>10,620<sup>4</sup></b>
	<b>Bond Deductions Payable .....</b>		<b>24,780</b>
	<b>Group Insurance Payable.....</b>		<b>40,356</b>
	<b>Salaries Payable .....</b>		<b>462,324</b>
	<sup>3</sup> <b>\$708,000 × 6%</b>		
	<sup>4</sup> <b>\$708,000 × 1.5%</b>		
<b>b. Jan. 4</b>	<b>Payroll Taxes Expense .....</b>	<b>85,668</b>	
	<b>Social Security Tax Payable .....</b>		<b>42,480</b>
	<b>Medicare Tax Payable .....</b>		<b>10,620</b>
	<b>State Unemployment Tax Payable .....</b>		<b>26,904<sup>5</sup></b>
	<b>Federal Unemployment Tax Payable ....</b>		<b>5,664<sup>6</sup></b>
	<sup>5</sup> <b>\$708,000 × 3.8%</b>		
	<sup>6</sup> <b>\$708,000 × 0.8%</b>		

Prob. 10–3B

1.

<u>Employee</u>	<u>Gross Earnings</u>	<u>Federal Income Tax Withheld</u>	<u>Social Security Tax Withheld</u>	<u>Medicare Tax Withheld</u>
Albright	\$ 46,200	\$10,164	\$ 2,772	\$ 693
Charles	102,000	24,888	6,000*	1,530
Given	53,000	10,070	3,180	795
Nelson	43,200	7,776	2,592	648
Quinn	6,000	1,110	360	90
Ramirez	27,200	4,760	1,632	408
Wu	115,000	28,520	6,000*	1,725
			<u>\$22,536</u>	<u>\$5,889</u>

\*\$100,000 maximum × 6%

2. a.	Social security tax paid by employer.....	\$22,536
b.	Medicare tax paid by employer .....	5,889
c.	Earnings subject to unemployment compensation tax, \$7,000 for all employees except Quinn, who has only \$6,000 in gross earnings. Thus, total earnings subject to SUTA and FUTA are \$48,000 [(6 × \$7,000) + \$6,000]. State unemployment compensation tax: \$48,000 × 3.8%.....	1,824
d.	Federal unemployment compensation tax: \$48,000 × 0.8%..	<u>384</u>
e.	Total payroll taxes expense .....	<u>\$30,633</u>

**Prob. 10–4B**

<b>1. 2006</b>				
Dec.	12	Sales Salaries Expense .....	3,366.50	
		Office Salaries Expense .....	2,900.00	
		Delivery Salaries Expense.....	1,959.00	
		Social Security Tax Payable .....		493.53
		Medicare Tax Payable .....		123.38
		Employees Income Tax Payable.....		1,402.06
		Medical Insurance Payable .....		469.20
		Salaries Payable .....		5,737.33
<b>2. Dec.</b>	<b>12</b>	Salaries Payable.....	5,737.33	
		Cash.....		5,737.33
<b>3. Dec.</b>	<b>12</b>	Payroll Taxes Expense .....	646.91	
		Social Security Tax Payable .....		493.53
		Medicare Tax Payable .....		123.38
		State Unemployment Tax Payable .....		24.00
		Federal Unemployment Tax Payable ....		6.00
<b>4. Dec.</b>	<b>15</b>	Employees Income Tax Payable.....	1,402.06	
		Social Security Tax Payable.....	987.06	
		Medicare Tax Payable.....	246.76	
		Cash.....		2,635.88

Prob. 10–5B

1. PAYROLL FOR WEEK ENDING *December 7, 2006*

Name	Total Hours	Earnings			Deductions				Paid		Accounts Debited		
		Regular	Overtime	Total	Social Security Tax	Medicare Tax	Federal Income Tax	U.S. Savings Bonds	Total	Net Amount	Ck. No.	Sales Salaries Expense	Office Salaries Expense
A	50.00	1,120.00	420.00	1,540.00	92.40	23.10	354.20	15.00	484.70	1,055.30	981	1,540.00	
B	42.00	880.00	66.00	946.00	56.76	14.19	189.20	0.00	260.15	685.85	982	946.00	
C				2,150.00	0.00	32.25	537.50	70.00	639.75	1,510.25	983		2,150.00
D	46.00	720.00	162.00	882.00	52.92	13.23	176.40	10.00	252.55	629.45	984	882.00	
E	40.00	600.00		600.00	36.00	9.00	108.00	0.00	153.00	447.00	985	600.00	
F	45.00	900.00	168.75	1,068.75	64.13	16.03	224.44	20.00	324.60	744.15	986	1,068.75	
G	40.00	640.00		640.00	38.40	9.60	108.80	25.00	181.80	458.20	987	640.00	
H				1,100.00	66.00	16.50	242.00	0.00	324.50	775.50	988		1,100.00
I	30.00	360.00		360.00	21.60	5.40	43.20	15.00	85.20	274.80	989	360.00	
		<u>5,220.00</u>	<u>816.75</u>	<u>9,286.75</u>	<u>428.21</u>	<u>139.30</u>	<u>1,983.74</u>	<u>155.00</u>	<u>2,706.25</u>	<u>6,580.50</u>		<u>6,036.75</u>	<u>3,250.00</u>

2. Sales Salaries Expense.....	6,036.75
Office Salaries Expense.....	3,250.00
Social Security Tax Payable .....	428.21
Medicare Tax Payable .....	139.30
Employees Federal Income Tax Payable.....	1,983.74
Bond Deductions Payable.....	155.00
Salaries Payable .....	6,580.50

**Prob. 10–6B**

1.

Dec.	1	Medical Insurance Payable.....	4,200	
		Cash.....		4,200
	2	Social Security Tax Payable.....	6,236	
		Medicare Tax Payable.....	1,641	
		Employees Federal Income Tax Payable .....	10,120	
		Cash.....		17,997
	3	Bond Deductions Payable.....	1,500	
		Cash.....		1,500
	14	Sales Salaries Expense .....	33,000	
		Officers Salaries Expense .....	15,600	
		Office Salaries Expense .....	5,000	
		Social Security Tax Payable .....		2,948
		Medicare Tax Payable .....		804
		Employees Federal Income Tax Payable.....		9,541
		Employees State Income Tax Payable.....		2,412
		Bond Deductions Payable.....		750
		Medical Insurance Payable .....		700
		Salaries Payable .....		36,445
	14	Salaries Payable.....	36,445	
		Cash.....		36,445
	14	Payroll Taxes Expense .....	4,077	
		Social Security Tax Payable .....		2,948
		Medicare Tax Payable .....		804
		State Unemployment Tax Payable .....		260
		Federal Unemployment Tax Payable .....		65
	17	Social Security Tax Payable.....	5,896	
		Medicare Tax Payable.....	1,608	
		Employees Federal Income Tax Payable .....	9,541	
		Cash.....		17,045

**Prob. 10–6B Continued**

<b>Dec. 28</b>	<b>Sales Salaries Expense .....</b>	<b>33,600</b>	
	<b>Officers Salaries Expense .....</b>	<b>16,000</b>	
	<b>Office Salaries Expense .....</b>	<b>5,200</b>	
	<b>Social Security Tax Payable .....</b>		<b>2,959</b>
	<b>Medicare Tax Payable .....</b>		<b>822</b>
	<b>Employees Federal Income Tax Payable.....</b>		<b>9,754</b>
	<b>Employees State Income Tax Payable.....</b>		<b>2,466</b>
	<b>Bond Deductions Payable.....</b>		<b>750</b>
	<b>Salaries Payable .....</b>		<b>38,049</b>
<b>28</b>	<b>Salaries Payable.....</b>	<b>38,049</b>	
	<b>Cash.....</b>		<b>38,049</b>
<b>28</b>	<b>Payroll Taxes Expense .....</b>	<b>3,981</b>	
	<b>Social Security Tax Payable .....</b>		<b>2,959</b>
	<b>Medicare Tax Payable .....</b>		<b>822</b>
	<b>State Unemployment Tax Payable .....</b>		<b>160</b>
	<b>Federal Unemployment Tax Payable .....</b>		<b>40</b>
<b>30</b>	<b>Employees State Income Tax Payable .....</b>	<b>14,724</b>	
	<b>Cash.....</b>		<b>14,724</b>
<b>30</b>	<b>Bond Deductions Payable.....</b>	<b>1,500</b>	
	<b>Cash.....</b>		<b>1,500</b>
<b>31</b>	<b>Pension Expense .....</b>	<b>65,000</b>	
	<b>Cash.....</b>		<b>59,500</b>
	<b>Unfunded Pension Liability.....</b>		<b>5,500</b>
<b>2.</b>			
<b>Dec. 31</b>	<b>Sales Salaries Expense .....</b>	<b>3,360</b>	
	<b>Officers Salaries Expense .....</b>	<b>1,600</b>	
	<b>Office Salaries Expense .....</b>	<b>520</b>	
	<b>Salaries Payable .....</b>		<b>5,480</b>
<b>31</b>	<b>Vacation Pay Expense .....</b>	<b>13,600</b>	
	<b>Vacation Pay Payable .....</b>		<b>13,600</b>

Prob. 10–6B Continued

*This solution is applicable only if the P.A.S.S. Software that accompanies the text is used.*

**ACADIA OUTDOOR EQUIPMENT COMPANY**  
**Income Statement**  
**For the Period Ended December 31, 20—**

Sales.....	\$ 3,387,200	100.00
Cost of merchandise sold .....	<u>1,580,000</u>	<u>46.65</u>
Gross profit.....	<u>\$ 1,807,200</u>	<u>53.35</u>
Operating expenses:		
Selling expenses:		
Sales salaries expense.....	\$ 815,760	24.08
Advertising expense.....	47,400	1.40
Depreciation expense—store equipment .....	13,662	0.40
Store supplies expense.....	35,850	1.06
Miscellaneous selling expense.....	<u>8,250</u>	<u>0.24</u>
Total selling expenses.....	<u>\$ 920,922</u>	<u>27.19</u>
Administrative expenses:		
Officers salaries expense .....	\$ 380,800	11.24
Office salaries expense.....	120,720	3.56
Rent expense .....	72,000	2.13
Heating and lighting expense.....	28,980	0.86
Insurance expense.....	26,921	0.79
Miscellaneous administrative expense.....	6,420	0.19
Payroll taxes expense .....	102,265	3.02
Pension expense .....	65,000	1.92
Vacation pay expense .....	<u>13,600</u>	<u>0.40</u>
Total administrative expenses .....	<u>\$ 816,706</u>	<u>24.11</u>
Total operating expenses.....	<u>\$ 1,737,628</u>	<u>51.30</u>
Net income.....	<u>\$ 69,572</u>	<u>2.05</u>

Prob. 10–6B Continued

ACADIA OUTDOOR EQUIPMENT COMPANY  
Retained Earnings Statement  
For the Period Ended December 31, 20—

Retained earnings (beginning of period) .....		\$496,210
Net income .....	\$ 69,572	
Less dividends .....	<u>(110,000)</u>	
Decrease in retained earnings .....		<u>(40,428)</u>
Retained earnings (end of period) .....		<u>\$455,782</u>

Prob. 10–6B Concluded

**ACADIA OUTDOOR EQUIPMENT COMPANY**  
**Balance Sheet**  
**December 31, 20—**

<u>Assets</u>		
Cash .....	\$ 149,138	
Accounts receivable .....	192,300	
Merchandise inventory .....	261,450	
Prepaid insurance .....	4,250	
Store supplies .....	<u>7,980</u>	
Total current assets.....		\$ 615,118
Store equipment.....	\$ 161,100	
Accumulated depreciation—store equipment.....	<u>(45,540)</u>	
Total plant assets.....		<u>115,560</u>
Total assets .....		<u>\$ 730,678</u>
<u>Liabilities</u>		
Accounts payable.....	\$ 80,400	
Salaries payable .....	5,480	
Social security tax payable .....	5,918	
Medicare tax payable .....	1,644	
Employees federal income tax payable .....	9,754	
State unemployment tax payable .....	1,520	
Federal unemployment tax payable .....	380	
Medical insurance payable.....	700	
Unfunded pension liability .....	5,500	
Vacation pay payable.....	<u>13,600</u>	
Total liabilities.....		\$ 124,896
<u>Stockholders' Equity</u>		
Capital stock.....		\$ 150,000
Retained earnings .....		<u>455,782</u>
Total liabilities and stockholders' equity.....		<u>\$ 730,678</u>

### COMPREHENSIVE PROBLEM 3

1.			
Jan.	2	Petty Cash.....	800
		Cash.....	800
Mar.	1	Office Supplies.....	265
		Miscellaneous Selling Expense.....	304
		Miscellaneous Administrative Expense.....	158
		Cash.....	727
Apr.	5	Merchandise Inventory.....	10,000
		Accounts Payable.....	10,000
May	5	Accounts Payable.....	10,000
		Cash.....	10,000
	10	Cash.....	8,480
		Cash Short and Over.....	10
		Sales.....	8,490
June	2	Notes Receivable.....	50,000
		Accounts Receivable.....	50,000
Aug.	1	Cash.....	50,600
		Notes Receivable.....	50,000
		Interest Revenue.....	600*
		*\$50,000 × 7.2% × 60/360 = \$600	
	3	Cash.....	1,400
		Allowance for Doubtful Accounts.....	600
		Accounts Receivable.....	2,000
	28	Accounts Receivable.....	600
		Allowance for Doubtful Accounts.....	600
	28	Cash.....	600
		Accounts Receivable.....	600

**Comp. Prob. 3    Continued**

Sept. 2	Land .....	118,200	
	Interest Expense .....	1,800	
	Notes Payable .....		120,000
Oct. 2	Office Equipment .....	130,000	
	Accumulated Depreciation—Office Equipment .....	35,000	
	Office Equipment .....		96,000
	Notes Payable .....		69,000
Nov. 30	Sales Salaries Expense .....	42,500	
	Office Salaries Expense .....	22,500	
	Employees Federal Income Tax Payable.....		13,650
	Social Security Tax Payable .....		3,770
	Medicare Tax Payable .....		975
	Salaries Payable .....		46,605
	30 Payroll Taxes Expense .....	4,791	
	Social Security Tax Payable .....		3,770
	Medicare Tax Payable .....		975
	State Unemployment Tax Payable .....		38
	Federal Unemployment Tax Payable .....		8
Dec. 1	Notes Payable.....	120,000	
	Cash.....		120,000
	30 Pension Expense .....	65,000	
	Cash.....		61,300
	Unfunded Pension Liability.....		3,700

**Comp. Prob. 3    Continued**

**2.**

**CALICO INTERIORS, INC.  
Bank Reconciliation  
December 31, 2006**

Balance according to bank statement.....		\$105,700	
Add deposit in transit, not recorded by bank.....		<u>10,400</u>	
		\$116,100	
Deduct outstanding checks .....		<u>22,680</u>	
Adjusted balance .....		<u>\$ 93,420</u>	
Balance according to depositor's records .....		\$ 93,600	
Deduct:			
Bank service charges .....	\$ 80		
Error in recording check.....	<u>100</u>	<u>180</u>	
Adjusted balance .....		<u>\$ 93,420</u>	

3. Miscellaneous Administrative Expense.....		80	
Accounts Payable.....		100	
Cash.....			180

**Comp. Prob. 3 Continued**

4. a. Uncollectible Accounts Expense.....	6,480	
..... Allowance for Doubtful Accounts		6,480
b. Cost of Merchandise Sold .....	1,260	
..... Merchandise Inventory		1,260
c. Insurance Expense.....	14,300	
..... Prepaid Insurance		14,300
d. Office Supplies Expense .....	5,680	
..... Office Supplies		5,680
e. Depreciation Expense—Buildings.....	6,400	
Depreciation Expense—Office Equipment .....	5,800	
Depreciation Expense—Store Equipment .....	10,500	
Accumulated Depreciation—Buildings .....		6,400
Accumulated Depreciation—Office Equipment.		5,800
Accumulated Depreciation—Store Equipment..		10,500
Computations:		
..... Buildings ( $\$320,000 \times 2\%$ )		6,400
..... Office Equipment		
..... [ $1/4 \times 20\% \times (\$130,000 - \$14,000)$ ]		5,800
..... Store Equipment ( $\$42,000 \times 25\%$ )		10,500
f. Amortization Expense—Patents ( $\$42,900 \div 6$ ).....	7,150	
..... Patents		7,150
g. Depletion Expense .....	15,000	
..... Accumulated Depletion		15,000
..... [ $(\$105,000 \div 42,000 \text{ tons}) \times 6,000 \text{ tons}$ ]		
h. Vacation Pay Expense .....	11,400	
..... Vacation Pay Payable		11,400
i. Product Warranty Expense ( $\$568,000 \times 2.5\%$ ) .....	14,200	
..... Product Warranty Payable		14,200
j. Interest Expense ( $\$69,000 \times 9\% \times 90/360$ ).....	1,553	
..... Interest Payable		1,553

Comp. Prob. 3 Continued

5.

**CALICO INTERIORS, INC.**  
**Balance Sheet**  
**December 31, 2006**

Assets

Current assets:

Petty cash.....		\$	800
Cash .....			93,420
Notes receivable .....			40,000
Accounts receivable .....	\$202,300		
Less allowance for doubtful accounts.....	<u>5,980</u>		196,320
Merchandise inventory—at cost (last-in, first-out).....			140,600
Prepaid insurance.....			28,600
Office supplies .....			<u>7,100</u>
Total current assets .....			\$ 506,840

Property, plant, and equipment:

	<u>Cost</u>	<u>Accumulated Depreciation (Depletion)</u>	<u>Book Value</u>
Land .....	\$118,200		\$118,200
Buildings .....	320,000	\$ 6,400	313,600
Office equipment .....	130,000	5,800	124,200
Store equipment.....	42,000	10,500	31,500
Mineral rights .....	<u>105,000</u>	<u>15,000</u>	<u>90,000</u>
Total property, plant, and equipment .....	<u>\$715,200</u>	<u>\$37,700</u>	677,500

Intangible assets:

Patents.....			<u>35,750</u>
Total assets .....			<u>\$1,220,090</u>

Comp. Prob. 3    Continued

Liabilities

Current liabilities:

Social security tax payable .....	\$ 7,772	
Medicare tax payable.....	2,010	
Employees federal income tax payable .....	14,070	
State unemployment tax payable .....	33	
Federal unemployment tax payable .....	6	
Salaries payable.....	67,000	
Accounts payable .....	125,300	
Interest payable.....	1,553	
Product warranty payable .....	14,200	
Vacation pay payable .....	10,000	
Notes payable (current portion) .....	<u>69,000</u>	
Total current liabilities .....		\$ 310,944

Long-term liabilities:

Vacation pay payable .....	\$ 1,400	
Unfunded pension liability .....	3,700	
Notes payable .....	<u>26,000</u>	
Total long-term liabilities.....		<u>31,100</u>

Total liabilities .....

		\$ 342,044
--	--	------------

Stockholders' Equity

Capital stock.....	\$250,000	
Retained earnings .....	<u>628,046</u>	<u>878,046</u>
Total liabilities and stockholders' equity.....		<u>\$1,220,090</u>

**Comp. Prob. 3    Concluded**

6. The merchandise inventory destroyed was \$129,320, determined as follows:

Merchandise inventory, January 1 .....		<b>\$140,600</b>
Purchases, January 1–February 7 .....		<u><b>246,720</b></u>
Merchandise available for sale .....		<b>\$387,320</b>
Sales, January 1–February 7 .....	<b>\$430,000</b>	
Less estimated gross profit ( $\$430,000 \times 40\%$ ).....	<u><b>172,000</b></u>	
Estimated cost of merchandise sold.....		<u><b>258,000</b></u>
Estimated merchandise inventory destroyed.....		<u><b>\$129,320</b></u>

## SPECIAL ACTIVITIES

### Activity 10–1

The firm has no implicit or explicit contract to pay any bonus. The bonus is discretionary, even if the firm paid a two-week bonus for ten straight years. The firm is not behaving unethically for reducing the bonus to one week—regardless of the reason. Sarah Lindsay, on the other hand, has taken things into her own hands. Sensing that she is being cheated, she tries to rectify the situation to her own advantage by working overtime that isn't required. This behavior could be considered fraudulent, even though Sarah is actually present on the job during the overtime hours. The point is that the overtime is not required by the firm. Sarah is incorrect in thinking that her behavior is justified because she did not receive the full two-week bonus. In fact, this behavior would not be justified even if she had a legitimate claim against the company. If she had a claim or grievance against the firm, then it should be handled by other procedural or legal means.

### Activity 10–2

Connie's interpretation of the pension issue is correct. The employee earns the pension during the working years. The pension is part of the employee's compensation that is deferred until retirement. Thus, Horizon should record an expense equal to the amount of pension benefit earned by the employee for the period. This gives rise to the rather complex issue of estimating the amount of the pension expense. Peter indicates that the complexity of this calculation makes determining the annual pension expense impossible. This is not so. There are a number of mathematical and statistical approaches (termed "actuarial" approaches) that can reliably estimate the amount of benefits earned by the workforce for a given year.

As a side note, Peter's perspective can be summarized as "pay as you go." In his interpretation, there is no expense until a pension is paid to the retiree. Failing to account for pension promises when they are earned is not considered sound accounting.

### **Activity 10–3**

The CEO may have requested the two changes because they would reduce the amount of depreciation expense and increase the amount of reported earnings recorded in a particular year. Thus, the CEO's bonus would be higher due to the larger reported earnings. Straight-line depreciation recognizes lower depreciation expense in the earlier years of a truck's life. As long as the company is replacing trucks, straight-line depreciation will result in a lower depreciation expense and hence a higher income number. Adding 50% to the useful lives of trucks (such as increasing the life from 6 to 9 years) would spread the recognition of depreciation expense over a longer life. Thus, depreciation expense would be lower and income higher in any particular year.

The CEO may request a change from one generally accepted accounting principle to another. Changing from double-declining-balance to straight-line depreciation is such a change. Though the CEO may be suggesting the change in order to influence the bonus, the change is acceptable, if Cary Trucking Company's auditors agree with the change. The increase in the useful lives of the plant and equipment is another matter. The useful lives of trucks should be based on objective analysis. An arbitrary increase in useful lives for all the trucks cannot be supported. Such a change could be viewed as a violation of generally accepted accounting principles.

## Activity 10–4

- a. The so-called “underground economy” hides transactions from IRS scrutiny by conducting business with cash (not check or credit card, which leaves an audit trail). The intent in many such transactions is to evade income tax illegally. However, just because a transaction is in cash does not exempt it from taxation. Cross also appears to perform landscaping services on a cash basis to evade reporting income while paying employees with cash to avoid paying social security and Medicare payroll taxes. The IRS reports that nearly 86% of the persons convicted of evading employment taxes were sentenced to an average of 17 months in prison and ordered to make restitution to the government for the taxes evaded, plus interest and penalties.
- b. Carl should respond that he would rather receive a payroll check as a normal employee does. Receiving cash as an employee, rather than a payroll check, subverts the U.S. tax system. That is, such cash payments do not include deductions for payroll taxes, as required by law. That is why, for example, cash tips must be formally reported to the IRS and subjected to payroll tax deductions by the employer. In addition, if Carl followed Kevin’s advice, Carl not only would be avoiding payroll taxes, but would also be underreporting income. This would subject Carl to potential fines and possible criminal prosecution for underreporting income.

## Activity 10–5

The purpose of this activity is to familiarize students with the on-line job placement and career guidance information that is available. An example of the salary information from *cfstaffing.com* is as follows:

### 2001 Salary Guide

#### National Averages:

CFO .....	\$138,750
Controller.....	93,250
Assistant Controller.....	69,200

#### Accounting Manager (7–9 years):

	<u>7th Year</u>	<u>8th Year</u>	<u>9th Year</u>
Public .....	\$62,400	\$68,200	\$75,200
General .....	52,600	58,100	66,600
Internal Audit.....	64,700	68,200	73,900
Tax .....	66,500	75,100	82,700
Cost.....	57,300	60,200	62,800

#### Accounting Senior (4–6 years):

	<u>4th Year</u>	<u>5th Year</u>	<u>6th Year</u>
Public .....	\$46,500	\$51,400	\$54,800
General .....	41,800	46,200	49,400
Internal Audit.....	48,900	53,400	58,500
Tax .....	48,400	56,900	59,300
Cost.....	44,600	47,300	51,000

#### Staff Accountant (1–3 years):

	<u>1st Year</u>	<u>2nd Year</u>	<u>3rd Year</u>
Public .....	\$39,200	\$40,200	\$46,200
General .....	34,900	37,600	41,700
Internal Audit.....	40,100	44,100	48,100
Tax .....	39,700	44,200	46,400
Cost.....	36,500	40,000	44,400

#### Staff Accountant (0–1 years):

	<u>1st Year</u>
Public .....	\$38,600
General .....	34,500
Internal Audit.....	38,500
Tax .....	39,700
Cost.....	35,400

A/P, A/R, P/R Manager..... \$44,300

Full Charge Bookkeeper..... \$39,600

Accounting Clerk..... \$30,600

#### Credit:

Manager .....	\$55,100
Senior .....	43,100
Staff .....	33,700

## Activity 10–6

The purpose of this activity is to familiarize students with retrieving and using IRS forms. Students should be able to find the three required forms without much difficulty. Encourage students to retrieve the forms from the IRS Web site, since this is a useful source for any IRS form or publication that they might need. IRS Web site forms come in *.pdf format*, which means an Adobe Acrobat Reader is necessary to open and print the file. This software is available as a free plug-in on most Internet browser software. However, some students may need to download a free version in order to open the forms. This is also a useful exercise, since many sophisticated forms on the Web require an Acrobat Reader.

- a. The W-2 Form is the Annual Wage and Tax Statement transmitted by the employer to the IRS. The IRS uses this information to reconcile the taxpayer's reported income and withholding taxes with the taxpayer's tax return. Copies of the W-2 are provided for the employee's own records and for submitting with state and federal tax returns.

Form 941 is the Employer's Quarterly Federal Tax Return. This return is used to report federal withholding payroll taxes collected from employees and FICA taxes (both employee and employer portions) for the quarter.

Form 940 is the Employer's Annual Federal Unemployment Tax Return. The FUTA tax is reported annually, while the 941 payroll taxes are reported quarterly to the IRS.

- b. The following pages illustrate the three forms.

**Activity 10–6 Continued**

<b>a</b> Control number		22222	Void <input type="checkbox"/>	<b>For Official Use Only</b> <b>OMB No. 1545-0008</b>			
<b>b</b> Employer's identification number 62-2222222			<b>1</b> Wages, tips, other compensation 4,000.00		<b>2</b> Federal income tax withheld 468.00		
<b>c</b> Employer's name, address, and ZIP code  Audit-Proof Tax Services 2234 Franklin Avenue Ramsey, NJ 07446			<b>3</b> Social security wages 4,000.00		<b>4</b> Social security tax withheld 248.00		
			<b>5</b> Medicare wages and tips 4,000.00		<b>6</b> Medicare tax withheld 58.00		
			<b>7</b> Social security tips		<b>8</b> Allocated tips		
<b>d</b> Employee's social security number 001-00-3333			<b>9</b> Advance EIC payments		<b>10</b> Dependent care benefits		
<b>e</b> Employee's name (first, middle initial, last) Jarrod Minkov ----- 233 Wycoff Avenue Mahwah, NJ 07478			<b>11</b> Nonqualified plans		<b>12</b> Benefits included in box 1		
			<b>13</b> See Instrs. for box 13		<b>14</b> Other 0.00		
			<b>15</b> Statutory employee <input type="checkbox"/>	Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>	Legal rep. <input type="checkbox"/>	Hshold. emp. <input type="checkbox"/>
<b>f</b> Employee's address and ZIP code							
<b>16</b> State	Employer's state I.D. No.	<b>17</b> State wages, tips, etc.	<b>18</b> State income tax	<b>19</b> Locality name	<b>20</b> Local wages, tips, etc.	<b>21</b> Local income tax	
-----	-----	-----	-----	-----	-----	-----	

Cat. No.  
10134D

Department of the Treasury—Internal Revenue Service

Form **W-2** Wage and Tax  
Statement  
Copy A For Social Security Administration

**For Paperwork Reduction Act Notice,  
see separate instructions.**

# Activity 10-6 Continued

## Form 940

Form **940**  
 Department of the Treasury  
 Internal Revenue Service (99)

### Employer's Annual Federal Unemployment (FUTA) Tax Return

OMB No. 1545-0028

2002

▶ See separate instructions for Form 940 for information on completing this form.

Name (as distinguished from trade name) <b>Audit-Proof Tax Services</b> Trade name, if any <b>Audit-Proof Tax Services</b>	Calendar year
Address and ZIP code <b>2234 Franklin Avenue</b> <b>Ramsey, NJ 07446</b>	Employer identification number <b>62 222222</b>

T	
FF	
FD	
FP	
I	
T	

- A** Are you required to pay unemployment contributions to only one state? (If "No," skip questions B and C.).....  Yes  No
- B** Did you pay all state unemployment contributions by January 31, 2003? ((1) If you deposited your total FUTA tax when due, check "Yes" if you paid all state unemployment contributions by February 10, 2003. (2) If a 0% experience rate is granted, check "Yes." (3) If "No," skip question C.).....  Yes  No
- C** Were all wages that were taxable for FUTA tax also taxable for your state's unemployment tax? .....  Yes  No
- If you answered "No" to any of these questions, you must file Form 940. If you answered "Yes" to all the questions, you may file Form 940-EZ, which is a simplified version of Form 940. (Successor employers see **Special credit for successor employers** on page 3 of the instructions.) You can get Form 940-EZ by calling 1-800-TAX-FORM (1-800-829-3676) or from the IRS's Internet Web Site at [www.irs.gov](http://www.irs.gov).

If you will not have to file returns in the future, check here (see **Who Must File** in separate instructions), and complete and sign the return ..... ▶

If this is an Amended Return, check here ..... ▶

### Part I Computation of Taxable Wages

<b>1</b> Total payments (including payments shown on lines 2 and 3) during the calendar year for services of employees.....		<b>1</b>	<b>12,000</b>	<b>00</b>
<b>2</b> Exempt payments. (Explain all exempt payments, attaching additional sheets if necessary.) ▶ .....	<b>2</b>		<b>0</b>	<b>00</b>
<b>3</b> Payments of more than \$7,000 for services. Enter only amounts over the first \$7,000 paid to each employee. Do not include any exempt payments from line 2. The \$7,000 amount is the Federal wage base. Your state wage base may be different. <b>Do not use your state wage limitation.</b> .....	<b>3</b>		<b>0</b>	<b>00</b>
<b>4</b> Total exempt payments (add lines 2 and 3).....		<b>4</b>	<b>0</b>	<b>00</b>
<b>5</b> Total taxable wages (subtract line 4 from line 1)..... ▶		<b>5</b>	<b>12,000</b>	<b>00</b>

Be sure to complete both sides of this form, and sign in the space provided on the back.

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

Cat. No.  
112340

Form **940** (2002)

# Activity 10–6 Continued

## Form 940

Form 940 (2002)

Page **2**

### Part II Tax Due or Refund

<b>1</b>	Gross FUTA tax. Multiply the wages in Part 1, line 5, by .062 .....	<b>1</b>		<b>744 00</b>					
<b>2</b>	Maximum credit. Multiply the wages in Part 1, line 5, by .054 .....	<b>2</b>	<b>648 00</b>						
<b>3</b>	Computation of tentative credit ( <b>Note:</b> All taxpayers must complete the applicable columns.)								
(a) Name of state	(b) State reporting number(s) as shown on employer's state contribution returns	(c) Taxable payroll (as defined in state act)	(d) State experience rate period		(e) State experience rate	(f) Contributions if rate had been 5.4% (col. (c) × .054)	(g) Contributions payable at experience rate (col. (c) × col. (e))	(h) Additional credit (col. (f) minus col. (g)). If 0 or less, enter -0-	(i) Contributions paid to state by 940 due date
			From	To					
<b>3a</b>	Totals..... ▶	<b>0.00</b>					<b>0.00</b>	<b>0.00</b>	
<b>3b</b>	<b>Total tentative credit</b> (add line 3a, columns (h) and (i) only—for late payments also see the instructions for Part II, line 6) .....						<b>3b</b>		<b>0 00</b>
<b>4</b>									
<b>5</b>									
<b>6</b>	<b>Credit:</b> Enter the smaller of the amount from Part II, line 2 or line 3b; or amount from the worksheet in the Part II, line 6 instructions .....						<b>6</b>		<b>0 00</b>
<b>7</b>	<b>Total FUTA tax</b> (subtract line 6 from line 1). If the result is over \$100, also complete Part III.....						<b>7</b>		<b>744 00</b>
<b>8</b>	Total FUTA tax deposited for the year, including any overpayment applied from a prior year .....						<b>8</b>		<b>0 00</b>
<b>9</b>	<b>Balance due</b> (subtract line 8 from line 7). Pay to the "United States Treasury". If you owe more than \$100, see <b>Depositing FUTA Tax</b> on page 3 of the separate instructions..... ▶						<b>9</b>		<b>744 00</b>
<b>10</b>	<b>Overpayment</b> (subtract line 7 from line 8). Check if it is to be: <input type="checkbox"/> <b>Applied to next return</b> or <input type="checkbox"/> <b>Refunded</b> ..... ▶						<b>10</b>		<b>0 00</b>

### Part III Record of Quarterly Federal Unemployment Tax Liability (Do not include state liability.) Complete only if line 7 is over \$100. See page 6 of the separate instructions.

Quarter	First (Jan. 1–Mar. 31)	Second (Apr. 1–June 30)	Third (July 1–Sept. 30)	Fourth (Oct. 1–Dec. 31)	Total for year
Liability for quarter	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>744.00</b>	<b>744.00</b>

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and, to the best of my knowledge and belief, it is true, correct, and complete, and that no part of any payment made to a state unemployment fund claimed as a credit was, or is to be, deducted from the payments to employees.

**Signature** ▶ \_\_\_\_\_ **Title (Owner, etc.)** ▶ \_\_\_\_\_ **Date** ▶ \_\_\_\_\_

Form **940** (2002)

**Activity 10-6**

**Concluded**

Form **941**  
(Rev. January 2003)  
Department of the Treasury  
Internal Revenue Service

**Employer's Quarterly Federal Tax Return**

See separate instructions for information on completing this return.

Please type or print.

Enter state code for state in which deposits were made ONLY if different from state in address to the right (see page 2 of instructions).

Name (as distinguished from trade name) **Audit-Proof Tax Services** Date quarter ended **12/31**

OMB No. 1545-0029

Trade name, if any **Audit-Proof Tax Services** Employer identification number **62-2222222**

Address (number and street) **2234 Franklin Avenue** City, state, and ZIP code **Ramsey, NJ 07446**

T  
FF  
FD  
FP  
I  
T

If address is different from prior return, check here

IRS Use	1	1	1	1	1	1	1	1	1	1	2	3	3	3	3	3	3	3	3	4	4	4	5	5	5			
	6	7	8	8	8	8	8	8	8	8	8	9	9	9	9	9	9	9	9	10	10	10	10	10	10	10	10	10

If you do not have to file returns in the future, check here and enter date final wages paid

If you are a seasonal employer, see Seasonal employers on page 1 of the instructions and check here

<b>1</b> Number of employees in the pay period that includes March 12th.	<b>1</b>	<b>0.00</b>	
<b>2</b> Total wages and tips, plus other compensation	<b>2</b>	<b>12,000</b>	<b>00</b>
<b>3</b> Total income tax withheld from wages, tips, and sick pay	<b>3</b>	<b>1,404</b>	<b>00</b>
<b>4</b> Adjustment of withheld income tax for preceding quarters of calendar year	<b>4</b>	<b>0</b>	<b>00</b>
<b>5</b> Adjusted total of income tax withheld (line 3 as adjusted by line 4-see instructions)	<b>5</b>	<b>1,404</b>	<b>00</b>
<b>6</b> Taxable social security wages	<b>6a</b>	<b>12,000</b>	<b>00</b>
Taxable social security tips	<b>6c</b>	<b>0</b>	<b>00</b>
<b>7</b> Taxable Medicare wages and tips	<b>7a</b>	<b>12,000</b>	<b>00</b>
<b>8</b> Total social security and Medicare taxes (add lines 6b, 6d, and 7b). Check here if wages are not subject to social security and/or Medicare tax	<b>8</b>	<b>1,836</b>	<b>00</b>
<b>9</b> Adjustment of social security and Medicare taxes (see instructions for required explanation) Sick Pay \$ <b>0.00</b> ± Fractions of Cents \$ <b>0.00</b> ± Other \$ <b>0.00</b> =	<b>9</b>	<b>0</b>	<b>00</b>
<b>10</b> Adjusted total of social security and Medicare taxes (line 8 as adjusted by line 9-see instructions)	<b>10</b>	<b>1,836</b>	<b>00</b>
<b>11</b> Total taxes (add lines 5 and 10)	<b>11</b>	<b>3,240</b>	<b>00</b>
<b>12</b> Advance earned income credit (EIC) payments made to employees	<b>12</b>	<b>0</b>	<b>00</b>
<b>13</b> Net taxes (subtract line 12 from line 11). If \$1,000 or more, this must equal line 17, column (d) below (or line D of Schedule B (Form 941))	<b>13</b>	<b>3,240</b>	<b>00</b>
<b>14</b> Total deposits for quarter, including overpayment applied from a prior quarter	<b>14</b>	<b>0</b>	<b>00</b>
<b>15</b> Balance due (subtract line 14 from line 13). See instructions	<b>15</b>	<b>3,240</b>	<b>00</b>

**16** Overpayment. If line 14 is more than line 13, enter excess here \$ **0.00** and check if to be:  Applied to next return OR  Refunded.

- All filers: If line 13 is less than \$1,000, you need not complete line 17 or Schedule B (Form 941).
- Semiweekly schedule depositors: Complete Schedule B (Form 941) and check here
- Monthly schedule depositors: Complete line 17, columns (a) through (d), and check here

<b>17 Monthly Summary of Federal Tax Liability.</b> Do not complete if you were a semiweekly schedule depositor.			
(a) First month liability	(b) Second month liability	(c) Third month liability	(d) Total liability for quarter
<b>0.00</b>	<b>1,620.00</b>	<b>1,620.00</b>	<b>3,240.00</b>

**Sign Here** Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.

Signature \_\_\_\_\_ Print your Name and Title \_\_\_\_\_ Date \_\_\_\_\_

For Privacy Act and Paperwork Reduction Act Notice, see back of Payment Voucher.