Chapter 11: Current Liabilities and Payroll Accounting

**DO IT! 1**

Current Liabilities

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

1. If cash is borrowed on a $50,000, 6-month, 12% note on September 1, how much interest expense would be incurred by December 31?
2. How is the sales tax amount determined when the cash register total includes sales taxes?
3. If $15,000 is collected in advance on November 1 for 3 months’ rent, what amount of rent revenue should be recognized by December 31?

**Solution**

1. $50,000 × 12% × 4/12 = $2,000
2. First, divide the total cash register receipts by 100% plus the sales tax percentage to find the sales revenue amount. Second, subtract the sales revenue amount from the total cash register receipts to determine the sales taxes.
3. $15,000 × 2/3 = $10,000


**DO IT! 2**

Reporting and Analyzing

Lepid Company has the following account balances at December 31, 2017.

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes payable ($80,000 due after 12/31/18)</td>
<td>$200,000</td>
</tr>
<tr>
<td>Unearned service revenue</td>
<td>75,000</td>
</tr>
<tr>
<td>Other long-term debt ($30,000 due in 2018)</td>
<td>150,000</td>
</tr>
<tr>
<td>Salaries and wages payable</td>
<td>22,000</td>
</tr>
<tr>
<td>Other accrued expenses</td>
<td>15,000</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>100,000</td>
</tr>
</tbody>
</table>

In addition, Lepid is involved in a lawsuit. Legal counsel feels it is probable Lepid will pay damages of $38,000 in 2018.

(a) Prepare the current liabilities section of Lepid’s December 31, 2017, balance sheet.
(b) Lepid’s current assets are $504,000. Compute Lepid’s working capital and current ratio.

**Solution**

(a) Current liabilities

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes payable</td>
<td>$120,000</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>100,000</td>
</tr>
<tr>
<td>Unearned service revenue</td>
<td>75,000</td>
</tr>
<tr>
<td>Lawsuit liability</td>
<td>38,000</td>
</tr>
<tr>
<td>Salaries and wages payable</td>
<td>22,000</td>
</tr>
<tr>
<td>Other accrued expenses</td>
<td>15,000</td>
</tr>
<tr>
<td>Long-term debt due within one year</td>
<td>30,000</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>$400,000</td>
</tr>
</tbody>
</table>

(b) Working capital = Current assets – Current liabilities = $504,000 – $400,000 = $104,000

Current ratio = Current assets ÷ Current liabilities = $504,000 ÷ $400,000 = 1.26:1

Related exercise material: BE11-5, E11-7, E11-8, and DO IT 11-2.
In January, gross earnings in Ramirez Company were $40,000. All earnings are subject to 7.65% FICA taxes. Federal income tax withheld was $9,000, and state income tax withheld was $1,000. (a) Calculate net pay for January, and (b) record the payroll.

**Action Plan**
- ✔ Determine net pay by subtracting payroll deductions from gross earnings.
- ✔ Record gross earnings as Salaries and Wages Expense, record payroll deductions as liabilities, and record net pay as Salaries and Wages Payable.

**Solution**
(a) Net pay: $40,000 \( - (7.65\% \times $40,000) \) \(- $9,000 - $1,000 = $26,940\)
(b) Salaries and Wages Expense \( 40,000 \)
   - FICA Taxes Payable \( 3,060 \)
   - Federal Income Taxes Payable \( 9,000 \)
   - State Income Taxes Payable \( 1,000 \)
   - Salaries and Wages Payable \( 26,940 \)

To record payroll.

Related exercise material: BE11-7, BE11-8, E11-9, E11-10, E11-11, E11-12, and DO IT! 11-3a.

In January, the payroll supervisor determines that gross earnings for Halo Company are $70,000. All earnings are subject to 7.65% FICA taxes, 5.4% state unemployment taxes, and 0.8% federal unemployment taxes. Halo asks you to record the employer’s payroll taxes.

**Action Plan**
- ✔ Compute the employer’s payroll taxes on the period’s gross earnings.
- ✔ Identify the expense account(s) to be debited.
- ✔ Identify the liability account(s) to be credited.

**Solution**
The entry to record the employer’s payroll taxes is:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll Tax Expense</td>
<td>9,695</td>
</tr>
<tr>
<td>FICA Taxes Payable ( ($70,000 \times 7.65%) )</td>
<td>5,355</td>
</tr>
<tr>
<td>Federal Unemployment Taxes Payable ( ($70,000 \times 0.8%) )</td>
<td>560</td>
</tr>
<tr>
<td>State Unemployment Taxes Payable ( ($70,000 \times 5.4%) )</td>
<td>3,780</td>
</tr>
</tbody>
</table>

(To record employer’s payroll taxes on January payroll)

Related exercise material: BE11-9, E11-11, E11-13, and DO IT! 11-3b.
You and several classmates are studying for the next accounting exam. They ask you to answer the following questions:

1. If cash is borrowed on a $70,000, 9-month, 6% note on August 1, how much interest expense would be incurred by December 31?

2. The cash register total including sales taxes is $42,000, and the sales tax rate is 5%. What is the sales taxes payable?

3. If $45,000 is collected in advance on November 1 for 6-month magazine subscriptions, what amount of subscription revenue should be recognized by December 31?

Medlen Company has the following account balances at December 31, 2017.

- Notes payable ($60,000 due after 12/31/18) $100,000
- Unearned service revenue 70,000
- Other long-term debt ($90,000 due in 2018) 250,000
- Salaries and wages payable 32,000
- Accounts payable 63,000

In addition, Medlen is involved in a lawsuit. Legal counsel feels it is probable Medlen will pay damages of $25,000 in 2018.

(a) Prepare the current liabilities section of Medlen’s December 31, 2017, balance sheet.
(b) Medlen’s current assets are $570,000. Compute Medlen’s working capital and current ratio.

In January, gross earnings in Burrell Company were $80,000. All earnings are subject to 7.65% FICA taxes. Federal income tax withheld was $14,000, and state income tax withheld was $1,600. (a) Calculate net pay for January, and (b) record the payroll.

In January, the payroll supervisor determines that gross earnings for Carlyle Company are $120,000. All earnings are subject to 7.65% FICA taxes, 5.4% state unemployment taxes, and 0.8% federal unemployment taxes. Record the employer’s payroll taxes.

CONTINUING PROBLEM

COOKIE CREATIONS: AN ENTREPRENEURIAL JOURNEY

(Note: This is a continuation of the Cookie Creations problem from Chapters 1 through 10.)

Recall that Cookie Creations sells fine European mixers that it purchases from Kzinski Supply Co. Kzinski warrants the mixers to be free of defects in material and workmanship for a period of one year from the date of original purchase. If the mixer has such a defect, Kzinski will repair or replace the mixer free of charge for parts and labor.

Go to the book’s companion website, www.wiley.com/college/weygandt, to see the completion of this problem.