

- 644
652
61
- Dec. 14 Issued Check No. 520 in payment of the net amount of the biweekly payroll.
 14 Journalized the entry to record payroll taxes on employees' earnings of December 14: social security tax, \$2,288; Medicare tax, \$624; state unemployment tax, \$250; federal unemployment tax, \$60.
 17. Issued Check No. 528 to Johnson Bank for \$13,229, in payment for \$4,576 of social security tax, \$1,248 of Medicare tax, and \$7,405 of employees' federal income tax due.
 28. Journalized the entry to record the biweekly payroll. A summary of the payroll record follows:
- | | | | |
|-----------------------------|----------|----------|----------|
| Salary distribution: | | | |
| Sales | \$25,400 | | |
| Officers | 12,400 | | |
| Office | 4,800 | \$42,600 | |
| <hr/> | | | |
| Deductions: | | | |
| Social security tax | \$ 2,300 | | |
| Medicare tax | 639 | | |
| Federal income tax withheld | 7,583 | | |
| State income tax withheld | 1,917 | | |
| Savings bond deductions | 900 | 13,339 | |
| | | <hr/> | |
| Net amount | | | \$29,261 |
28. Issued Check No. 540 for the net amount of the biweekly payroll.
 28. Journalized the entry to record payroll taxes on employees' earnings of December 28: social security tax, \$2,300; Medicare tax, \$639; state unemployment tax, \$120; federal unemployment tax, \$30.
 30. Issued Check No. 551 for \$10,827 to Johnson Bank, in payment of employees' state income tax due on December 31.
 30. Issued Check No. 552 to Johnson Bank for \$1,800 to purchase U.S. savings bonds for employees.
 31. Paid \$44,000 to the employee pension plan. The annual pension cost is \$52,000. (Record both the payment and the unfunded pension liability.)

Instructions

- Journalize the transactions.
- Journalize the following adjusting entries on December 31:
 - Salaries accrued: sales salaries, \$2,540; officers salaries, \$1,240; office salaries, \$480. The payroll taxes are immaterial and are not accrued.
 - Vacation pay, \$10,600.

Comprehensive Problem 3



✓ 5. Total assets,
\$1,567,300

Selected transactions completed by Blackwell Company during its first fiscal year ending December 31 were as follows:

- Jan. 2. Issued a check to establish a petty cash fund of \$2,000.
 Mar. 4. Replenished the petty cash fund, based on the following summary of petty cash receipts: office supplies, \$789; miscellaneous selling expense, \$256; miscellaneous administrative expense, \$378.
 Apr. 5. Purchased \$14,000 of merchandise on account, terms 1/10, n/30. The perpetual inventory system is used to account for inventory.
 May 7. Paid the invoice of April 5 after the discount period had passed.
 10. Received cash from daily cash sales for \$9,455. The amount indicated by the cash register was \$9,545.
 June 2. Received a 60-day, 9% note for \$80,000 on the Stevens account.
 Aug. 1. Received amount owed on June 2 note, plus interest at the maturity date.
 8. Received \$3,400 on the Jacobs account and wrote off the remainder owed on a \$4,000 accounts receivable balance. (The allowance method is used in accounting for uncollectible receivables.)

- Aug. 25. Reinstated the Jacobs account written off on August 8 and received \$600 cash in full payment.
- Sept. 2. Purchased land by issuing a \$300,000, 90-day note to Ace Development Co., which discounted it at 10%.
- Oct. 2. Sold office equipment in exchange for \$60,000 cash plus receipt of a \$40,000, 120-day, 6% note. The equipment had cost \$140,000 and had accumulated depreciation of \$25,000 as of October 1.
- Nov. 30. Journalized the monthly payroll for November, based on the following data:

Salaries		Deductions	
Sales salaries	\$60,400	Income tax withheld	\$17,082
Office salaries	<u>34,500</u>	Social security tax withheld	5,450
	<u>\$94,900</u>	Medicare tax withheld	1,424

Unemployment tax rates:

State unemployment	4.0%
Federal unemployment	0.8%

Amount subject to unemployment taxes:

State unemployment	\$4,000
Federal unemployment	4,000

30. Journalized the employer's payroll taxes on the payroll.
- Dec. 1. Journalized the payment of the September 2 note at maturity.
30. The pension cost for the year was \$85,000, of which \$62,400 was paid to the pension plan trustee.

Instructions

- Journalize the selected transactions.
- Based on the following data, prepare a bank reconciliation for December of the current year:
 - Balance according to the bank statement at December 31, \$126,400.
 - Balance according to the ledger at December 31, \$109,650.
 - Checks outstanding at December 31, \$30,600.
 - Deposit in transit, not recorded by bank, \$13,200.
 - Bank debit memo for service charges, \$350.
 - A check for \$530 in payment of an invoice was incorrectly recorded in the accounts as \$230.
- Based on the bank reconciliation prepared in (2), journalize the entry or entries to be made by Blackwell Company.
- Based on the following selected data, journalize the adjusting entries as of December 31 of the current year:
 - Estimated uncollectible accounts at December 31, \$7,200, based on an aging of accounts receivable. The balance of Allowance for Doubtful Accounts at December 31 was \$750 (debit).
 - The physical inventory on December 31 indicated an inventory shrinkage of \$1,480.
 - Prepaid insurance expired during the year, \$10,200.
 - Office supplies used during the year, \$1,760.
 - Depreciation is computed as follows:

Asset	Cost	Residual Value	Acquisition Date	Useful Life in Years	Depreciation Method Used
Buildings	\$400,000	\$ 0	January 2	40	Straight-line
Office Equip.	110,000	10,000	July 1	4	Straight-line
Store Equip.	50,000	5,000	January 3	8	Double-declining-balance (at twice the straight-line rate)

- A patent costing \$22,500 when acquired on January 2 has a remaining legal life of 10 years and is expected to have value for five years.
- The cost of mineral rights was \$220,000. Of the estimated deposit of 400,000 tons of ore, 24,000 tons were mined and sold during the year.

- h. Vacation pay expense for December, \$4,800.
- i. A product warranty was granted beginning December 1 and covering a one-year period. The estimated cost is 2.5% of sales, which totaled \$840,000 in December.
- j. Interest was accrued on the note receivable received on October 2.
5. Based on the following information and the post-closing trial balance shown below, prepare a balance sheet in report form at December 31 of the current year.

The merchandise inventory is stated at cost by the LIFO method.

The product warranty payable is a current liability.

Vacation pay payable:

Current liability	\$3,200
Long-term liability	1,600

The unfunded pension liability is a long-term liability.

Notes payable:

Current liability	\$25,000
Long-term liability	75,000

Blackwell Company
Post-Closing Trial Balance
December 31, 2010

	Debit Balances	Credit Balances
Petty Cash	2,000	
Cash	109,000	
Notes Receivable	40,000	
Accounts Receivable	210,000	
Allowance for Doubtful Accounts		7,200
Merchandise Inventory	144,200	
Interest Receivable	600	
Prepaid Insurance	20,400	
Office Supplies	6,000	
Land	292,500	
Buildings	400,000	
Accumulated Depreciation—Buildings		10,000
Office Equipment	110,000	
Accumulated Depreciation—Office Equipment		12,500
Store Equipment	50,000	
Accumulated Depreciation—Store Equipment		12,500
Mineral Rights	220,000	
Accumulated Depletion		13,200
Patents	18,000	
Social Security Tax Payable		10,420
Medicare Tax Payable		2,550
Employees Federal Income Tax Payable		17,260
State Unemployment Tax Payable		100
Federal Unemployment Tax Payable		20
Salaries Payable		85,000
Accounts Payable		140,000
Interest Payable		3,200
Product Warranty Payable		21,000
Vacation Pay Payable		4,800
Unfunded Pension Liability		22,600
Notes Payable		100,000
J. Crane, Capital		1,160,350
	1,622,700	1,622,700

6. On February 7 of the following year, the merchandise inventory was destroyed by fire. Based on the following data obtained from the accounting records, estimate the cost of the merchandise destroyed:

Jan. 1 Merchandise inventory	\$144,200
Jan. 1–Feb. 7 Purchases (net)	40,000
Jan. 1–Feb. 7 Sales (net)	70,000
Estimated gross profit rate	40%