Accounting Notes
Short Term Notes, Estimated Liabilities, Payroll

Short term Notes Payable:

Purchase made with a note:

Machinery   Face Value (FV) of note
    Notes Payable, short term   Face Value (FV) of note

Entry to accrue interest on the note

Interest Expense   FV * xx% * (# months/12)
    Interest Payable   FV * xx% * (# months/12)

Short term Notes Payable issued at a discount:

> where bank deducts the total interest due on the note from the face value of the note and gives the remaining proceeds to the business
> at maturity the full amount (Face Value) is repaid to the bank

Entry for the borrowing of cash

Cash   Proceeds
Discount on Note Payable   FV * xx% * (term of note/360)
    Note Payable, Short Term   Face Value

Accruing of Interest Expense

Interest Expense   FV * xx% * (# days accrued/360)
    Discount on Note Payable   FV * xx% * (# days accrued/360)

Payment of note at maturity

Notes Payable, Short Term   Face Value
    Cash   Face Value

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Recording of Sales and related Sales Tax Payable:

Method 1	Method 2
separate sales tax payable from sales at the time of the sale	- separate sales tax payable from sales when payment is received

Method 1:

Journal Entries

Cash   Total
   Sales Revenue   Sales Price (SP)
   Sales Tax Payable   SP * tax%

Sales Tax Payable $xxxx
   Cash $xxxx

Method 2:

Journal Entries

Cash $SP * (100% + tax%)$
   Sales Revenue $SP * (100\% + tax\%)$

Sales Revenue   SP * tax%
   Sales Tax Payable   SP * tax%

Sales Tax Payable $xxxx
   Cash $xxxx

Unearned Revenue:

-   where the business receives cash payment for services or goods before the goods or services are provided to the customer
-   the payment is shown as a liability until the goods or services are provided to the customer

Journal entry for advanced payment:

Cash   Amount received
   Unearned Revenue   Amount received

Journal entry for when goods or services are provided:

Unearned Revenue   Value of goods/services provided
   Revenue   Value of goods/services provided

Accounting Notes

Estimated product warranty payable:

- warranty expense must be recorded in the same period that the business recognized the sales revenue for the product
- since the exact warranty expense is not known it must be estimated, usually it is estimated as a percentage of sales

Journal entry to accrue warranty expense:

Warranty expense	Sales * xx%	
Est. Warranty payable		Sales * xx%

Journal entry for the repair of product under warranty:

Est. Warranty payable	repair costs	
Cash		repair costs

Journal entry for the replacement of a product under warranty:

Est. Warranty payable	replacement cost	
Inventory		replacement costs

Estimated Vacation Pay Liability:

- figured as a percentage of the payroll
- percentage = vacation time allowed (weeks) / total work time (weeks)

Journal entry to record vacation expense

Vacation Pay Expense	payroll * xx%	
Est. Vacation Pay Liability		Payroll * xx%

Journal entry to record vacation time taken:

Est. Vacation Pay Liability	Vacation pay	
Cash		Vacation pay

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Payroll:

Gross pay - total amount of salary, wages, commissions before taxes and other deductions

Net pay - gross pay minus all deductions

Payroll deductions:

Income tax - federal income taxes withheld from an employees gross pay
- amount withheld depends on the gross pay, marital status, and the number of allowances (dependents) claimed by the employee
- amount withheld is a liability to the business since it must be paid to the government

Social Security (FICA) tax - consists of two parts (1) OASDI (social security) and (2) medicare
- OASDI is applied to the first $65,000 of an employee ̌s wages at a rate of 6.2%
- Medicare is applied to all of an employee ̌s wages at a rate of 1.45%

Other Payroll Deductions - other deduction may include union dues, insurance premiums, and contributions to retirement plans

Employer Payroll Taxes:

FICA tax - employers must match the amount of FICA tax withheld from the employee ̌s gross pay

State Unemployment Compensation (SUTA) tax - a tax paid only by the employer to the state
- it is applied only to the first $7,000 of an employee ̌s gross pay

Federal Unemployment Compensation (FUTA) tax - a tax paid only by the employer to the federal government
- it is applied only to the first $7,000 of an employee ̌s gross pay

Accounting Notes

Payroll entries:

To record payroll:

Salary (Wages) Expense	Gross Pay	
Employee Income Tax Payable		Income tax withheld
FICA Tax Payable		Gross pay * FICA%
Employee Union Dues Payable		Amount of dues
Salary (Wages) Payable		Net Pay

To record employer š payroll tax expense:

Payroll Tax Expense	Total taxes	
FICA Tax Payable		Match employee š tax
SUTA Tax Payable		Gross pay * SUTA%
FUTA Tax Payable		Gross pay * FUTA%

To record employee benefits:

Health Insurance Expense	Amount paid	
Life Insurance Expense	Amount paid	
Pension Expense	Amount paid	
Employee Benefits Payable		Total

To record payment of net pay:

Salary (Wages) Payable	Net Pay	
Cash		Net Pay

To record payment of payroll taxes and deductions:

Employee Income Tax Payable	Amount due	
FICA Tax Payable		
Employee Union Dues Payable		
Employee United Way Payable		
SUTA Tax Payable		
FUTA Tax Payable		
Cash		Total paid

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Payroll Entries:

To record the payment of employee benefits:

Employee Benefits Payable   Amount paid
   Cash   Amount paid