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 |
### Recording of Sales and related Sales Tax Payable:

<table>
<thead>
<tr>
<th>Method 1</th>
<th>Method 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>separate sales tax payable from sales at the</td>
<td>- separate sales tax payable from sales when</td>
</tr>
<tr>
<td>time of the sale</td>
<td>payment is received</td>
</tr>
</tbody>
</table>

**Journal Entries**

<table>
<thead>
<tr>
<th>Cash</th>
<th>Total</th>
<th>Sales Revenue</th>
<th>Sales Price (SP)</th>
<th>Sales Tax Payable</th>
<th>SP * tax%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Revenue</td>
<td></td>
<td>Sales Revenue</td>
<td>SP * (100% + tax%)</td>
<td>Sales Revenue</td>
<td>SP * tax%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sales Tax Payable</td>
<td>SP * tax%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sales Tax Payable</th>
<th>$xxxx</th>
<th>Cash</th>
<th>$xxxx</th>
</tr>
</thead>
</table>

### 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:**

<table>
<thead>
<tr>
<th>Cash</th>
<th>Amount received</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unearned Revenue</td>
<td>Amount received</td>
</tr>
</tbody>
</table>

**Journal entry for when goods or services are provided:**

<table>
<thead>
<tr>
<th>Unearned Revenue</th>
<th>Value of goods/services provided</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>Value of goods/services provided</td>
</tr>
</tbody>
</table>
Accounting Notes
Short Term Notes, Estimated Liabilities, Payroll

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
Accounting Notes

Short Term Notes, Estimated Liabilities, Payroll

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 employee’s 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

Short Term Notes, Estimated Liabilities, Payroll

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’s payroll tax expense:

- **Payroll Tax Expense**
- **Total taxes**
- **FICA Tax Payable**
  - Match employee’s 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**
- **Cash**
  - Net Pay
  - 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
## Payroll Entries:

To record the payment of employee benefits:

<table>
<thead>
<tr>
<th>Employee Benefits Payable</th>
<th>Amount paid</th>
<th>Amount paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>