



Calculating Federal Income Tax and Completing a Work Sheet

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# FEDERAL INCOME TAX EXPENSE ADJUSTMENT

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Before Federal Income Tax

Total of Income Statement Credit column	\$	500,253.10
Less total of Income Statement Debit column		
before federal income tax	_	-396,049.91
Equals Net Income before Federal Income Tax	\$	104,203.19



## CALCULATING FEDERAL INCOME TAX

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LESSON 14-6

15% of net income before taxes, zero to \$50,000.00 (15% tax on the *first* \$50,000.00 of net income) *Plus* 25% of net income before taxes, \$50,000.00 to \$75,000.00 (25% tax on the *next* \$25,000.00 of net income) *Plus* 34% of net income before taxes, \$75,000.00 to \$100,000.00 (34% tax on the *next* \$25,000.00 of net income) *Plus* 39% of net income before taxes, \$100,000.00 to \$335,000.00 (39% tax on the *next* \$225,000.00 of net income) *Plus* 34% of net income before taxes, \$100,000.00 to \$335,000.00 (39% tax on the *next* \$225,000.00 of net income) *Plus* 34% of net income before taxes over \$335,000.00 (34% tax on net income *above* \$335,000.00)

Step 1:				
First Net Income Amount	×	First Tax Rate	=	Federal Income Tax on First \$50,000.00 of Net Income
\$50,000.00	$\times$	15%	=	\$7,500.00
Step 2:				
Second Net Income Amount	×	Second Tax Rate	=	Federal Income Tax on Next \$25,000.00 of Net Income
\$25,000.00	$\times$	25%	=	\$6,250.00
Step 3:				
Third Net Income Amount	×	Third Tax Rate	=	Federal Income Tax on Next \$25,000.00 of Net Income
\$25,000.00	×	34%	=	\$8,500.00
Step 4:				
Total Net Income	-	Lowest Dollar Amount of Fourth Tax Range	=	Amount of Net Income to Which Fourth Tax Rate Is Applied
\$104,203.19	-	\$100,000.00	=	\$4,203.19
Step 5:				
Fourth Net Income Amount	×	Fourth Tax Rate	=	Federal Income Tax on Next \$140,914.00 of Net Income
\$4,203.19	×	39%	=	\$1,639.24
Step 6:				
First Federal Tax	+	Second Federal Tax	+	Third Federal Tax + Fourth Federal Tax = Total Federal Tax
Amount		Amount		Amount Amount Amount
\$7,500.00	+	\$6,250.00	+	\$8,500.00 + \$1,639.24 = \$23,889.24

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# RECORDING THE FEDERAL INCOME TAX

4

1	2	3	4	5	6	7	8
TRIAL B	ALANCE	ADJUS	TMENTS	INCOME ST	ATEMENT	BALANCE	SHEET
DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
3586450						3586450	
	649700		<sup>(f)</sup> 6 5 4 0 00				1303700
4084950						4084950	
	506900		<sup>(g)</sup> 5 2 5 0 00				1031900
	1158303						11 5 8 3 03
		<u> </u>	<sup>(h)</sup> 5 8 8 9 24			3	588924
		<sup>(b)</sup> 291000		291000			
		a substant line and line income	the second se	124500			
382000				382000			
1800000		<sup>(h)</sup> 5 8 8 9 24		2388924	3		
67086159	67086159	4357424	4357424				
	DEBIT 35 8 6 4 50 40 8 4 9 50 40 8 4 9 50 3 8 2 0 00 18 0 0 0 00	TRIAL BALANCE   DEBIT CREDIT   35 8 6 4 50 6 4 9 7 00   40 8 4 9 50 6 4 9 7 00   40 8 4 9 50 11 5 8 3 03   38 2 0 00 11 5 8 3 03	TRIAL BALANCE ADJUS   DEBIT CREDIT DEBIT   35 8 6 4 50 6 4 9 7 00 1   40 8 4 9 50 50 6 9 00 1   11 5 8 3 03 1 1   10 1 1 5 8 3 03 1 1   11 5 8 3 03 1 1   11 5 8 3 03 1 1   11 5 8 3 03 1 1   11 5 8 3 03 1 1   11 5 8 3 03 1 1   11 5 8 3 03 1 1   11 5 8 3 03 1 1   11 5 8 3 03 1 1   11 5 8 3 03 1 1   11 5 8 3 03 1 1   11 5 8 3 03 1 1   11 5 8 3 03 1 1   12 5 5 0 6 9 00 1 1   13 8 2 0 00 1 1   18 0 0 0 00 1 1	TRIAL BALANCE ADJUSTMENTS   DEBIT CREDIT DEBIT CREDIT   35 8 6 4 50 6 4 9 7 00 ( <sup>0</sup> ) 6 5 4 0 00   40 8 4 9 50 ( <sup>0</sup> ) 6 5 4 0 00 ( <sup>0</sup> ) 6 5 4 0 00   40 8 4 9 50 ( <sup>1</sup> ) 5 8 8 9 24 ( <sup>1</sup> ) 5 8 8 9 24   ( <sup>1</sup> ) 5 8 8 2 0 00 ( <sup>1</sup> ) 5 8 8 9 24 ( <sup>1</sup> ) 5 8 8 9 24	TRIAL BALANCE ADJUSTMENTS INCOME ST   DEBIT CREDIT DEBIT CREDIT DEBIT DE	TRIAL BALANCE ADJUSTMENTS INCOME STATEMENT   DEBIT CREDIT DEBIT CREDIT DEBIT CREDIT   35 8 6 4 50 0 0 0 6 4 9 7 00 0 0 6 4 9 7 00 <t< td=""><td>TRIAL BALANCE   ADJUSTMENTS   INCOME STATEMENT   BALANCE     DEBIT   CREDIT   DEBIT   DEBIT   CREDIT   DEBIT   CREDIT   DEBIT   CREDIT   DEBIT   CREDIT   DEBIT   DEBIT   CREDIT   DEBIT   D</td></t<>	TRIAL BALANCE   ADJUSTMENTS   INCOME STATEMENT   BALANCE     DEBIT   CREDIT   DEBIT   DEBIT   CREDIT   DEBIT   CREDIT   DEBIT   CREDIT   DEBIT   CREDIT   DEBIT   DEBIT   CREDIT   DEBIT   D

2

 Calculate the amount of federal income tax expense adjustment.

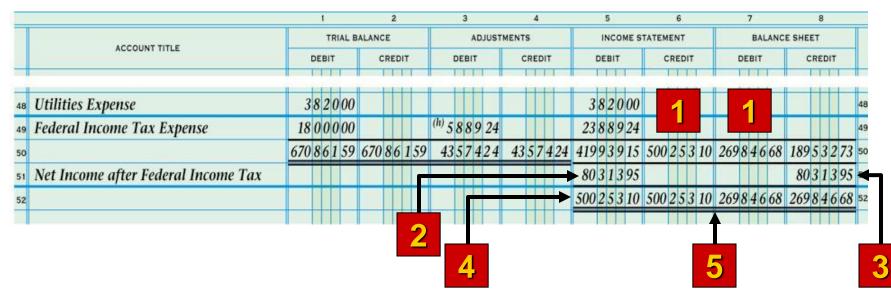
- 2. Total and rule the Adjustments columns.
- 3. Extend account balances.

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# COMPLETING A WORK SHEET

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- 1. Total the Income Statement and Balance Sheet columns.
- 2. Calculate and enter the net income after federal income tax.
- 3. Extend the net income amount.
- 4. Calculate the column totals.
- 5. Rule double lines.



# A COMPLETED 8-COLUMN WORK SHEET

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1	Cash	29			28				T	T	1										T						2	_	1.1	0 28	8	Ĩ				1
2	Petty Cash			-	00					1																		-		000	-					2
3	Accounts Receivable	14	3/1	-	3 40	-				T						1											1	46	59	840	0					3
4	Allow. for Uncoll. Accts.		T				1	2	7 52	2					(e)	12	4	5 00										T	T			1.	37	25	2	4
5	Merchandise Inventory	140	)4	80	00										(d)]	58	4	00	1 H								12	46	54	0 00	0					5
6	Supplies—Office	3	34	80	00										(a)	27	3	00										7	75	0 00	0					6
7	Supplies—Store	3	39	44	ŧ 00										(b) <sub>_</sub>	29	1	00										10	)3	400	0					7
- 2	Deshaid Incurance	4	- 0	0	000										(r)	31	7	000										20	0	0.00	0					2
42	Payroll Taxes Expense	9	71	05	500			Ħ	T	T									9	10	050	0						1								42
43	Rent Expense	18	30	00	00			Π		T									18	00	000	0						T	T							43
44	Salary Expense	104	15	25	5 00			Ħ											104	52	250	0							T							44
45	Supplies Expense—Office									(0	<sup>1)</sup> 2	73	0	00					2	73	:00	0														45
46	Supplies Expense—Store									a	"2	91	0	00					2	91	00	0						T	Τ							46
47	Uncollectible Accounts Expense									(6	<sup>?)</sup> 1	24	15	00					1	24	150	0														47
48	Utilities Expense	3	38.	20	00														3	82	200	0														48
49	Federal Income Tax Expense	18	30	00	00				Г	()	<sup>1)</sup> 5	88	39	24					23	88	392	4													1	49
50		670	)8	61	59	67	08	6	159	)	43	57	4	24	4	35	7	124	419	93	891	5	500	2.	53	10	26	98	34	6 68	8 18	39	53	27	3	50
51	Net Income after Federal Income Tax																		80	31	39	5									1	30	31	39	5	51
52																			500	25	531	0	500	2	53	10	26	98	34	6 68	8 26	59	84	66	8	52
															_					20					1		1						2			

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## #1: Extend all amounts <u>except Federal Income Tax Payable</u> (line 14) and Federal Income Tax Expense (line 49) to the appropriate Income Statement or Balance Sheet columns. <u>Do</u> <u>not total columns yet</u>.



Ti-	nes 1-27 should be							1975 - 1975 - 1975 - 1975 - 1975 - 1975 - 1975 - 1975 - 1975 - 1975 - 1975 - 1975 - 1975 - 1975 - 1975 - 1975 -		Aquatics				la de la com				
	les 1-27 should be								Work	Sheet								
	extended to the				1			ar End	ded D	ecember 31, 20 –								
	Balance Sheet		1	TRIAL E	ALANC	2 E			3 AD	4	5 INCOME S	6 STATEMENT		7 BALANCE	SHEET	8		-
			EBI			CRE	ті Т		DEBIT	CREDIT	DEBIT	CREDIT		EBIT	CR	EDIT		<u></u>
1	Cash		1417	5 00	1	-		in a series						8 5 00		2	1	1
2	Petty Cash		-	0 00		-								0 0 00				2
3	Accounts Receivable	15 4	8	5 25									15 4	8 5 25		-		3
4	Allow. for Uncoll. Accts.					52	248	34	+	(e) 2 1 2 0 00			-		26	44	1 84	4
5	Merchandise Inventory	248 7	-							<sup>(d)</sup> 13 8 4 8 05			_	0 4 20				5
6	Supplies—Office		-	5 25	-				-	(a) 4 8 2 8 10				5715				6
7	Supplies—Store			8 36					-	<sup>(b)</sup> 3 9 4 5 25			1.1	3311				7
8	Prepaid Insurance		-	0 00					-	<sup>(c)</sup> 5 4 0 0 00			8	0 0 00				8
9	Office Equipment	35 4	8	7 25							97		35 4	8 7 25				9
10	Acc. Depr.—Office Equipment				12	48	3 5 2	25	+	<sup>(f)</sup> 6 1 2 0 00					186	0 5	5 25	10
11	Store Equipment	40 8	4	9 50									40 8	4950				11
12	Acc. Depr.—Store Equipment				15	48	332	25	+	<sup>(g)</sup> 5 0 6 0 00					20 5			12
13	Accounts Payable				18	48	3 2 2	28							184	82	2 28	13
14	Federal Income Tax Payable									. (h)								14
15	Emp. Income Tax Pay.				2.10	99	80	00							9	98	3 00	15
16	Social Security Tax Payable					77	40	)7							7	74	l 07	16
17	Medicare Tax Payable					18	310	)3							1	81	03	17
18	Sales Tax Payable				1	84	183	35			5				18	48	3 35	18
19	Unemployment Tax Pay.—Fed.					2	240	00								24	ŧ 00	19
20	Unemployment Tax Pay.—State					16	520	00							1	62	2 00	20
21	Health Ins. Premiums Pay.					95	500	00							9	50	00	21
22	U.S. Savings Bonds Payable					8	300	00								80	00	22
23	United Way Donations Pay.					7	750	00								75	5 00	23
24	Dividends Payable				10	00	000	00							10 0	00	00	24
25	Capital Stock				175	00	000	00							175 0	00	00	25
26	Retained Earnings				12	57	7 4	45							12 5	77	7 45	26

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### LESSON 14-6

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]	ncome Statement		1			2		inac	3		4	.0	5			6			7			8	
	ACCOUNT HTLE	D	EBIT	259,972,000	ALANCE	REDIT		D	ADJUS EBIT	CI	REDIT			OME S	CR	T		DI	BA	LANC	E SHE	ET	 -
27	Dividends	21 0	000	00 0	03												2	10	00	00	10/3		27
28	Income Summary				0.01		"	<sup>#</sup> 13 8	4 8 05			13	848	8 05						1 34 4	1010		28
29	Sales			154	845 8	828	09					1			845 8	280	9						29
30	Sales Discount	6	48	3 25	NO:								648	8 25							5.63		30
31	Sales Returns and Allowances	81	57	7 27								8	157	7 27									31
32	Purchases	389 1	84	4 01	30							389	184	4 01							36		32
33	Purchases Discount				46	515	25								46	152	5				100/13	Xi	33
34	Purch. Returns and Allowances				94	197	00								94	970	0				315		34
35	Advertising Expense	15 2	80	00 00								15	280	00 00							112	Ci di	35
36	Cash Short and Over		12	2 85									12	2 85							-		36
37	Credit Card Fee Expense	64	82	2 27								6 4	182	2 27							XIX		37
38	Depr. Exp.—Office Equipment						0	<sup>n</sup> 61	2000			6	120	00 00							1		38
39	Depr. Exp.—Store Equipment						(5	» 5 <b>0</b>	6000	123		5 (	060	00 00								1. S.	39
40	Insurance Expense						((	<sup>°)</sup> 5 4	0 0 00			5 4	400	00 00									40
41	Miscellaneous Expense	45	68	3 97	1					200		4 5	568	3 97								1	41
42	Payroll Taxes Expense	161	84	1 25						1		16	184	<b>1</b> 25									42
43	Rent Expense	24 0	00	00 (						213 6		24 (	000	00									43
44	Salary Expense	204 1	80	85								204	180	85									44
45	Supplies Expense—Office		1.25				(a	" 4 8	2810			48	328	3 10									45
46	Supplies Expense—Store						(b	" 3 9	4 5 25			39	945	5 25									46
47	Uncollectible Accounts Exp.						(e	21	2000			2 1	120	00 00									47
48	Utilities Expense	42	64	28								4 2	264	28									48
49	Fed. Income Tax Expense	40 0	00	00						3										3	48		49

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## #2: Total the work sheet's Income Statement columns <u>except for Fed Income</u> <u>Tax Expense</u>. Calculate the difference between the debit and credit totals.

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	ACCOUNT TITLE				BA	LANC							MTRULO						OME	TATE						_	LAN	CESI			
-			DEI			1	CRE	DIT		-	DEI	віт		c	REDIT			DEBIT	-	-	CRE				DEI				CR	EDIT	
27	Dividends	21	0(	000	0	193		3																21	0	00	00	)			
28	Income Summary					00					38	48	05	3		1.	38	84	8 05										00		
29	Sales					845	82	28	8 09											845	582	28	09								
30	Sales Discount		64	482	5	30		10									(	54	8 25									1	-		
31	Sales Returns and Allowances	8	15	572	7			SA I										15													
32	Purchases	389	18	840	1	30		15								38	91	184	1 01										13 F		
33	Purchases Discount					4	6	1 5	5 25											4	6	15	25					0	3 8		
34	Purch. Returns and Allowances					9	49	97	00											9	49	7	00						1		
35	Advertising Expense	15	28	300	0		3									1	5 2	280	00 00								N.		1		
36	Cash Short and Over	- 7 al		128	5	1.2	A.S.	THE R										12	2 85										13		
37	Credit Card Fee Expense	6	48	322	7											(	64	182	2 27	1									No the		
38	Depr. Exp.—Office Equipment						EN S			(°) (	51.	20	00				61	120	00										20		
39	Depr. Exp.—Store Equipment								1	<sup>(g)</sup> 5	50	60	00			ł	5 (	66	00										1	- And	
40	Insurance Expense									(c) 5	54	00	00			1	5 4	100	00												
41	Miscellaneous Expense	4	56	589	7	178								0		4	4 5	568	8 97										10		
42	Payroll Taxes Expense	16	18	3 4 2	5											10	61	84	1 25					2.5							
43	Rent Expense	24	00	000	0		00						2/3 2	13.0		24	40	000	00								123		10		
44	Salary Expense	204	18	308	5													80				19									
45	Supplies Expense—Office	19/19								(a) 4	8	28	10			4	18	328	3 10												
46	Supplies Expense—Store	1017								" З	9	45	25			3	39	945	5 25												
47	Uncollectible Accounts Exp.	1213								(e) 2	1	20	00			2	2 1	20	00					24.3							
48	Utilities Expense	4	26	542	8								3 3 2	2		4	1 2	64	28		1	101								E .	
49	Fed. Income Tax Expense	40	00	000	0					Î																			3 34		
50	outs Receivable	1		+			-		+								+		+			+							-		

Before Federal Income Tax Total Income Stmt Credit column: Total Income Stmt Debit column: Net Income Before Federal Income Tax:

\$859,940.34 - <u>\$714,284.40</u> \$145,655.94

## **#3:** Using the table shown in this chapter, calculate Federal Income Tax Expense and record Income Tax Adjustment on the work sheet. Label the adjustment (h)

Federal Income Tax	Rate	Tax
First \$50,000	15%	\$7,500
Next \$25,000	25%	\$6,250
Next \$25,000	34%	\$8,500
145,655.94 - 100,000 = 45,655.94	39%	+ \$17,805.82
Total Federal Income Tax		\$40,055.82

Federal Incon	ne Tax	\$40,055.82	
<b>Federal Incon</b>	ne Tax Exp.	- \$40,000.00	
Federal Incon	ne Tax Adjus	t. \$55.82	
ACCOUNT TITLE		DJUSTMENT	

		DEBIT	CREDIT	DEBIT	DIT	DBIT	CREDIT	BRIT	CREDIT
14	Federal Income Tax Payable			(b)	5 5 82	N			5 5 82 14
49	Fed. Income Tax Expense	4000000		<sup>(h)</sup> 5 5 82		40 0 5 5 82			49

BALANCE SHEET

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## Net Income or Net Loss?

	ACCOUNT TITLE	1	٦	RIAL	BALANCE	Ξ				ADJUST	MENTS				INC	COME	STATE	MENT				BALA	ANCE	SHEE	.т	
			DEBI	r	c	REDI	т	No.	DEBI	т	CF	REDIT		121	DEBI	г	1	CREDI	т		DEB	лт	184	С	REDIT	-
49	Fed. Income Tax Expense	40	00	0 00		1		(h)	5	5 82				40	05	5 82	2									
50	mins Receivable	1,109	5 8	5 86	1,109	58	5 86	41	37	7 22	41 3	377	22	754	34	0 22	2 859	94	0 34	1 368	660	) 1 4	<b>46</b>	263	00	1 34
51	Net Income after Fed. Income Tax													105	60	0 12	2			3.0			11	105	601	0 12
52									1 it					859	94	0 34	859	94	0 34	368	60	114	16 3	368	60	1 46
		No.							1		Refer 1						-		-		==	++	-		++	