

LESSON 14-6

Calculating Federal Income Tax and Completing a Work Sheet

FEDERAL INCOME TAX EXPENSE ADJUSTMENT

Before Federal Income Tax

Total of Income Statement Credit column	\$ 500,253.10
Less total of Income Statement Debit column before federal income tax	<u>−396,049.91</u>
<i>Equals</i> Net Income before Federal Income Tax	<u><u>\$ 104,203.19</u></u>

CALCULATING FEDERAL INCOME TAX

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- 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 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	×	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	×	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 Amount	+	Second Federal Tax Amount	+	Third Federal Tax Amount	+	Fourth Federal Tax Amount	=	Total Federal Tax Amount
\$7,500.00	+	\$6,250.00	+	\$8,500.00	+	\$1,639.24	=	\$23,889.24





RECORDING THE FEDERAL INCOME TAX ADJUSTMENT

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ACCOUNT TITLE	1 TRIAL BALANCE		2 ADJUSTMENTS		3 INCOME STATEMENT		4 BALANCE SHEET	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
	9 <i>Office Equipment</i>	3586450						3586450
10 <i>Acc. Depr.—Office Equipment</i>		649700		^(f) 654000				1303700
11 <i>Store Equipment</i>	4084950						4084950	
12 <i>Acc. Depr.—Store Equipment</i>		506900		^(g) 525000				1031900
13 <i>Accounts Payable</i>		1158303						1158303
14 <i>Federal Income Tax Payable</i>				1 ^(h) 588924				3 588924
46 <i>Supplies Expense—Store</i>				^(b) 291000		291000		
47 <i>Uncollectible Accounts Expense</i>				^(c) 124500		124500		
48 <i>Utilities Expense</i>	382000					382000		
49 <i>Federal Income Tax Expense</i>	1800000			^(h) 588924		2388924		
50	67086159	67086159	4357424	4357424				

1. Calculate the amount of federal income tax expense adjustment.

2

2. Total and rule the Adjustments columns.

3. Extend account balances.

3



COMPLETING A WORK SHEET

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ACCOUNT TITLE	TRIAL BALANCE		ADJUSTMENTS		INCOME STATEMENT		BALANCE SHEET	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
48 <i>Utilities Expense</i>	382000				382000			
49 <i>Federal Income Tax Expense</i>	1800000		(h) 588924		2388924			
50	67086159	67086159	4357424	4357424	41993915	50025310	26984668	18953273
51 <i>Net Income after Federal Income Tax</i>					8031395			8031395
52					50025310	50025310	26984668	26984668

Diagram illustrating the completion of a worksheet with numbered steps:

- 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.

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

<i>Hobby Shack, Inc.</i>										
<i>Work Sheet</i>										
<i>For Year Ended December 31, 20--</i>										
ACCOUNT TITLE	1 TRIAL BALANCE		3 ADJUSTMENTS		5 INCOME STATEMENT		7 BALANCE SHEET			
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT		
1 Cash	2908028						2908028			1
2 Petty Cash	30000						30000			2
3 Accounts Receivable	1469840						1469840			3
4 Allow. for Uncoll. Accts.		12752		(e) 124500					137252	4
5 Merchandise Inventory	14048000			(d) 1584000			12464000			5
6 Supplies—Office	348000			(a) 273000			75000			6
7 Supplies—Store	394400			(b) 291000			103400			7
8 Prepaid Insurance	580000			(c) 217000			363000			8
42 Payroll Taxes Expense	910500					910500				42
43 Rent Expense	1800000					1800000				43
44 Salary Expense	10452500					10452500				44
45 Supplies Expense—Office			(a) 273000			273000				45
46 Supplies Expense—Store			(b) 291000			291000				46
47 Uncollectible Accounts Expense			(e) 124500			124500				47
48 Utilities Expense	382000					382000				48
49 Federal Income Tax Expense	1800000		(h) 588924			2388924				49
50	67086159	67086159	4357424	4357424	41993915	50025310	26984668	18953273		50
51 Net Income after Federal Income Tax					8031395			8031395		51
52					50025310	50025310	26984668	26984668		52



14-6 Work Together

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

Lines 1-27 should be extended to the Balance Sheet

Coastal Aquatics

Work Sheet

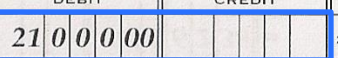
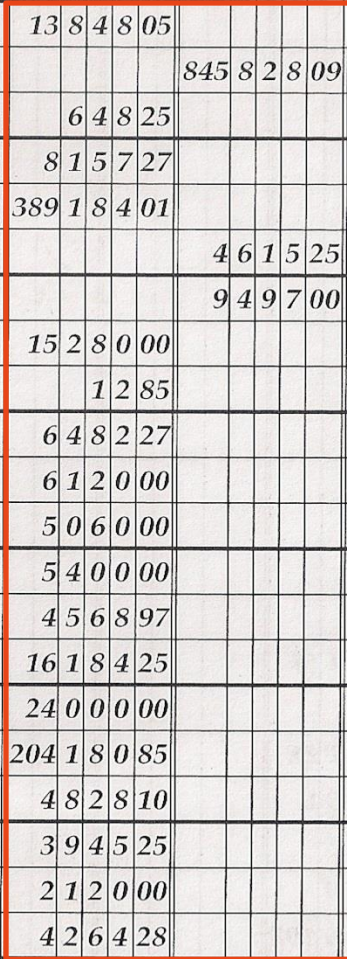
For Year Ended December 31, 20 --

	1		2		3		4		5		6		7		8							
	TRIAL BALANCE				ADJUSTMENTS				INCOME STATEMENT				BALANCE SHEET									
	DEBIT		CREDIT		DEBIT		CREDIT		DEBIT		CREDIT		DEBIT		CREDIT							
1	Cash	18	4	8	5	00							18	4	8	5	00					
2	Petty Cash		3	0	0	00								3	0	0	00					
3	<i>Accounts Receivable</i>	15	4	8	5	25							15	4	8	5	25					
4	Allow. for Uncoll. Accts.			5	2	4	84	+	(e)	2	1	2	0	00			2	6	4	4	84	
5	Merchandise Inventory	248	7	5	2	25		-	(d)	13	8	4	8	05	234	9	0	4	20			
6	Supplies—Office	5	4	8	5	25		-	(a)	4	8	2	8	10	6	5	7	15				
7	Supplies—Store	4	5	7	8	36		-	(b)	3	9	4	5	25	6	3	3	11				
8	Prepaid Insurance	6	2	0	0	00		-	(c)	5	4	0	0	00	8	0	0	00				
9	Office Equipment	35	4	8	7	25								35	4	8	7	25				
10	Acc. Depr.—Office Equipment			12	4	8	5	25	+	(f)	6	1	2	0	00			18	6	0	5	25
11	Store Equipment	40	8	4	9	50								40	8	4	9	50				
12	Acc. Depr.—Store Equipment			15	4	8	3	25	+	(g)	5	0	6	0	00			20	5	4	3	25
13	<i>Accounts Payable</i>			18	4	8	2	28									18	4	8	2	28	
14	Federal Income Tax Payable								(h)													
15	Emp. Income Tax Pay.			9	9	8	00										9	9	8	00		
16	Social Security Tax Payable			7	7	4	07										7	7	4	07		
17	Medicare Tax Payable			1	8	1	03										1	8	1	03		
18	Sales Tax Payable			1	8	4	8	35									1	8	4	8	35	
19	Unemployment Tax Pay.—Fed.			2	4	00												2	4	00		
20	Unemployment Tax Pay.—State			1	6	2	00											1	6	2	00	
21	Health Ins. Premiums Pay.			9	5	0	00											9	5	0	00	
22	U.S. Savings Bonds Payable			8	0	00												8	0	00		
23	United Way Donations Pay.			7	5	00												7	5	00		
24	Dividends Payable			10	0	0	0	00										10	0	0	0	00
25	Capital Stock			175	0	0	0	00										175	0	0	0	00
26	Retained Earnings			12	5	7	7	45										12	5	7	7	45

Lines 28-49 should be extended to the Income Statement

Coastal Aquatics
Work Sheet
For Year Ended December 31, 20 --

ACCOUNT TITLE	1		2		3		4		5		6		7		8		
	TRIAL BALANCE				ADJUSTMENTS				INCOME STATEMENT				BALANCE SHEET				
	DEBIT		CREDIT		DEBIT		CREDIT		DEBIT		CREDIT		DEBIT		CREDIT		
27 Dividends	21	00	00	00									21	00	00	00	
28 Income Summary					(d) 13	84	80	5	13	84	80	5					
29 Sales						845	82	80	9			845	82	80	9		
30 Sales Discount		6	4	8	25						6	4	8	25			
31 Sales Returns and Allowances		8	1	5	7	27					8	1	5	7	27		
32 Purchases	389	1	8	4	01					389	1	8	4	01			
33 Purchases Discount						4	6	1	5	25			4	6	1	5	25
34 Purch. Returns and Allowances						9	4	9	7	00			9	4	9	7	00
35 Advertising Expense	15	2	8	0	00					15	2	8	0	00			
36 Cash Short and Over			1	2	85							1	2	85			
37 Credit Card Fee Expense	6	4	8	2	27					6	4	8	2	27			
38 Depr. Exp.—Office Equipment					(p) 6	1	2	0	00	6	1	2	0	00			
39 Depr. Exp.—Store Equipment					(q) 5	0	6	0	00	5	0	6	0	00			
40 Insurance Expense					(r) 5	4	0	0	00	5	4	0	0	00			
41 Miscellaneous Expense	4	5	6	8	97					4	5	6	8	97			
42 Payroll Taxes Expense	16	1	8	4	25					16	1	8	4	25			
43 Rent Expense	24	0	0	0	00					24	0	0	0	00			
44 Salary Expense	204	1	8	0	85					204	1	8	0	85			
45 Supplies Expense—Office					(s) 4	8	2	8	10	4	8	2	8	10			
46 Supplies Expense—Store					(t) 3	9	4	5	25	3	9	4	5	25			
47 Uncollectible Accounts Exp.					(u) 2	1	2	0	00	2	1	2	0	00			
48 Utilities Expense	4	2	6	4	28					4	2	6	4	28			
49 Fed. Income Tax Expense	40	0	0	0	00					40	0	0	0	00			



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

	ACCOUNT TITLE	TRIAL BALANCE				ADJUSTMENTS				INCOME STATEMENT				BALANCE SHEET				
		DEBIT		CREDIT		DEBIT		CREDIT		DEBIT		CREDIT		DEBIT		CREDIT		
27	Dividends	21	00	00	00									21	00	00	00	27
28	Income Summary					^(a) 13	84	80	5	13	84	80	5					28
29	<i>Sales</i>													845	82	80	9	29
30	Sales Discount	6	48	25						6	48	25						30
31	Sales Returns and Allowances	8	15	72	7					8	15	72	7					31
32	<i>Purchases</i>	389	18	40	1					389	18	40	1					32
33	Purchases Discount													4	61	52	5	33
34	Purch. Returns and Allowances													9	49	70	0	34
35	Advertising Expense	15	28	00	00					15	28	00	00					35
36	Cash Short and Over		1	28	5						1	28	5					36
37	Credit Card Fee Expense	6	48	22	7					6	48	22	7					37
38	Depr. Exp.—Office Equipment					^(p) 6	12	00	00	6	12	00	00					38
39	Depr. Exp.—Store Equipment					^(q) 5	06	00	00	5	06	00	00					39
40	Insurance Expense					^(r) 5	40	00	00	5	40	00	00					40
41	Miscellaneous Expense	4	56	89	7					4	56	89	7					41
42	Payroll Taxes Expense	16	18	42	5					16	18	42	5					42
43	Rent Expense	24	00	00	00					24	00	00	00					43
44	Salary Expense	204	18	08	5					204	18	08	5					44
45	Supplies Expense—Office					^(s) 4	82	81	0	4	82	81	0					45
46	Supplies Expense—Store					^(t) 3	94	52	5	3	94	52	5					46
47	Uncollectible Accounts Exp.					^(u) 2	12	00	00	2	12	00	00					47
48	Utilities Expense	4	26	42	8					4	26	42	8					48
49	Fed. Income Tax Expense	40	00	00	00													49
50																		50

Before Federal Income Tax

Total Income Stmt Credit column:

\$859,940.34

Total Income Stmt Debit column:

- \$714,284.40

Net Income Before Federal Income Tax:

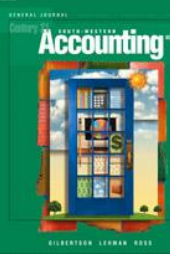
\$145,655.94

#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
<u>\$145,655.94 - \$100,000 = \$45,655.94</u>	39%	+ <u>\$17,805.82</u>
Total Federal Income Tax		<u>\$40,055.82</u>

Federal Income Tax \$40,055.82
Federal Income Tax Exp. - \$40,000.00
Federal Income Tax Adjust. \$55.82

ACCOUNT TITLE	TRIAL BALANCE		ADJUSTMENT		INCOME STATEMENT		BALANCE SHEET	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
14 Federal Income Tax Payable				(h) 55.82				55.82
49 Fed. Income Tax Expense	40000.00		(h) 55.82		40055.82			



Net Income or Net Loss?

ACCOUNT TITLE	TRIAL BALANCE				ADJUSTMENTS				INCOME STATEMENT				BALANCE SHEET																												
	DEBIT		CREDIT		DEBIT		CREDIT		DEBIT		CREDIT		DEBIT		CREDIT																										
49 Fed. Income Tax Expense	40	0	0	0	00	^(b)	5	5	82	40	0	5	5	82					49																						
50	1,109	5	8	5	86	1,109	5	8	5	86	41	3	7	7	22	41	3	7	7	22	754	3	4	0	22	859	9	4	0	34	368	6	0	1	46	263	0	0	1	34	50
51 <i>Net Income after Fed. Income Tax</i>																					105	6	0	0	12						105	6	0	0	12	51					
52																					859	9	4	0	34	859	9	4	0	34	368	6	0	1	46	368	6	0	1	46	52