1. Spencer Company had the following payroll information for the payroll period ended March 31, 2004.

**Payroll Information**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross payroll</td>
<td>$300,000</td>
</tr>
<tr>
<td>FICA wages</td>
<td>200,000</td>
</tr>
<tr>
<td>FUTA wages</td>
<td>42,000</td>
</tr>
<tr>
<td>SUTA wages</td>
<td>65,000</td>
</tr>
<tr>
<td>Federal income tax withheld</td>
<td>45,000</td>
</tr>
<tr>
<td>Union dues withheld</td>
<td>8,000</td>
</tr>
<tr>
<td>FICA tax rate</td>
<td>7.5%</td>
</tr>
<tr>
<td>FUTA tax rate</td>
<td>0.8%</td>
</tr>
<tr>
<td>SUTA tax rate</td>
<td>3.5%</td>
</tr>
</tbody>
</table>

Prepare the journal entries to record payroll and payroll taxes for the payroll period ended March 31, 2004.
2. Spencer Company borrowed $100,000 at Bank of the West on October 31, 2004. The note was discounted at 8% and due on August 30, 2005.

a. Prepare the journal entry to record the note on Spencer Company’s books at October 31, 2004.

b. Calculate the effective rate of interest that Spencer Company paid on the discounted note.
Spencer Company sells pet entertainment centers for $2,500 per unit. The entertainment centers carry a three-year warranty covering parts and labor. The company has been in business for 25 years and has established a stable pattern of warranty expense. On average the company incurs $50 in labor costs and $25 in parts for each entertainment center sold. During 2005 the company sold 1,000 entertainment centers and incurred warranty costs of $80,000 ($55,000 in labor and $25,000 in parts). On January 1, 2005 the balance in the "Estimated Liability under Warranties" account was $95,000.

a. Prepare the journal entry required to record warranty expense for 2005.

b. Prepare the journal entry to record warranty costs incurred during the year of 2005.

c. Prepare a t-account analysis of the “Estimated Liability under Warranties” account for the year of 2005.
4. May 1, 2002, Spencer Company issued $2,000,000, 8%, 5-year bonds dated January 1, 2002. Interest is paid on January 1 and July 1. The bonds were sold to yield 10% interest (the current market rate of interest). Bond issue costs were $120,000.

a. Calculate the issue price of the bonds

b. Calculate the accrued interest on the date of the sale of the bonds.

c. Prepare the journal entry to record the sale of the bonds.

d. Prepare the journal entry to record bond issue costs on May 1, 2002.
e. Prepare an amortization table through January 1, 2006.

f. Prepare the journal entry to record the first payment of interest and amortization of discount.

g. Prepare the journal entry on December 31, 2002 to record the accrual of interest, amortization of discount and accrual of interest payable.
h. Prepare the journal entry to record the amortization of bond issue costs for 2002.

i. On September 1, 2005 Spencer Company retired the bonds at 102. Prepare the journal entry to record interest expense, amortization of discount and accrued interest payable through September 1, 2005.
j. Prepare the journal entry to amortize bond issue costs through September 1, 2005.

k. Prepare the journal entry to record the loss on the early retirement of the bonds.
Spencer Company sold a piece of equipment that originally cost $1,000,000 and had accumulated depreciation of $400,000. The contract terms were as follows:

Cash down payment $70,000
$700,000, 10-year, 5% note receivable with interest paid at the end of each year.

The market rate of interest on a comparable note would be 8% per annum.

a. In the space provided calculate the selling price of the piece of equipment.

b. In the space provided calculate the gain on the sale of the equipment.

c. In the space provided prepare the journal entry to record the sale of the piece of equipment.
d. In the space provided prepare the journal entry to record interest revenue, amortization of the discount and collection of the first interest payment.