

CHAPTER EIGHT

PAYROLL ACCOUNTING: EMPLOYEE EARNINGS AND DEDUCTIONS

PAYROLL RECORD KEEPING



PAYROLL RECORD KEEPING

- **Payroll major expenditure**
 - Ford, 30%
 - Law firm, 80% or more
- **Analyze and control expenditures**
- **Laws require records to be kept**
 - For business as a whole
 - For each employee

SALARIES & WAGES

Salaries

- Compensation for management
- Biweekly, monthly, or annual terms

Wages

- Compensation for skilled and unskilled labor
- Hourly or units produced

OVERTIME

- **1.5 times regular rate**
- **Hourly employees who work over**
 - 40 hours/week or
 - 8 hours/day
- **Salaried employees usually exempt**

TOTAL EARNINGS

- Employee worked 55 hours this week
- Overtime rate of 1 1/2 times regular rate
- Double time on Sundays (4 hours)
- Regular rate of pay \$12 per hour

$$40 \text{ hours} \times \$12 \text{ per hour} = \$480$$

$$11 \text{ hours} \times \$18 =$$

$$\$12 \times 1 \frac{1}{2} = \$18 \text{ overtime rate}$$

TOTAL EARNINGS

- Employee worked 55 hours this week
- Overtime rate of 1 1/2 times regular rate
- Double time on Sundays (4 hours)
- Regular rate of pay \$12 per hour

40 hours x \$12 per hour = \$480
11 hours x \$18 = 198
4 hours x \$24 = 96

4 Sunday hours, paid at double the regular rate
\$12 x 2 = \$24 Sunday rate

TOTAL EARNINGS

- Employee worked 55 hours this week
- Overtime rate of 1 1/2 times regular rate
- Double time on Sundays (4 hours)
- Regular rate of pay \$12 per hour

40 hours x \$12 per hour = \$480
11 hours x \$18 = 198
4 hours x \$24 = 96
Total earnings \$774

Also called "Gross Pay"

HOMEWORK PRACTICE

Complete Exercise 8-2B, page 286

DEDUCTIONS FROM GROSS PAY

Three categories:

- Federal income tax withholding
- Employee FICA tax withholding
 - Social security
 - Medicare
- Other deductions

Gross Pay - Deductions = Net Pay

- Also called "take-home pay"

INCOME TAX WITHHOLDING

- Required by federal law
- Applied toward payment of employee's federal income tax
- Amount withheld should equal amount due on April 15

INCOME TAX WITHHOLDING

Amount withheld determined by

- Total Earnings
- Marital Status
- Number of withholding allowance claimed
- Length of the pay period
- Estimated tax due on April 15

WITHHOLDING ALLOWANCES

- Computed on Form W-4
- Used to adjust withholding so total withholding equals amount due on April 15.

WAGE-BRACKET METHOD

- Employee married
- Claims 6 allowances
- Gross earnings of \$545 for the week

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WAGE-BRACKET METHOD

- Estimated due on April 15 \$780
- Paid weekly
- Withholding from each paycheck
 $\$780 / 52 = \15

		MARRIED Persons - WEEKLY Payroll Period												
If the wages are-- At least	But less than	And the # of withholding allowances claimed is--												
		0	1	2	3	4	5	6	7	8	9	10		
		The amount of income tax to be withheld is--												
\$ 390	\$ 400	41	33	24	16	8	0	0	0	0	0	0	0	0
400	410	42	34	26	18	10	2	0	0	0	0	0	0	0
540	550	63	55	47	39	31	23	15	7	0	0	0	0	0
550	560	65	57	48	40	32	24	16	8	0	0	0	0	0
560	570	66	58	50	42	34	26	18	10	2	0	0	0	0
570	580	68	60	51	43	35	27	19	11	3	0	0	0	0
580	590	69	61	52	44	36	28	20	12	4	0	0	0	0
590	600	70	62	53	45	37	29	21	13	5	0	0	0	0
600	610	71	63	54	46	38	30	22	14	6	0	0	0	0
610	620	72	64	55	47	39	31	23	15	7	0	0	0	0
620	630	73	65	56	48	40	32	24	16	8	0	0	0	0
630	640	74	66	57	49	41	33	25	17	9	1	0	0	0
640	650	75	67	58	50	42	34	26	18	10	2	0	0	0
640	650	77	69	60	52	44	36	28	20	12	4	0	0	0
640	650	78	70	62	54	46	38	30	22	14	5	0	0	0

Step #1 Find the row for wages of "at least \$540, but less than \$550."

		MARRIED Persons - WEEKLY Payroll Period												
If the wages are-- At least	But less than	And the # of withholding allowances claimed is--												
		0	1	2	3	4	5	6	7	8	9	10		
		The amount of income tax to be withheld is--												
\$ 390	\$ 400	41	33	24	16	8	0	0	0	0	0	0	0	0
400	410	42	34	26	18	10	2	0	0	0	0	0	0	0
540	550	63	55	47	39	31	23	15	7	0	0	0	0	0
550	560	65	57	48	40	32	24	16	8	0	0	0	0	0
560	570	66	58	50	42	34	26	18	10	2	0	0	0	0
570	580	68	60	51	43	35	27	19	11	3	0	0	0	0
580	590	69	61	52	44	36	28	20	12	4	0	0	0	0
590	600	70	62	53	45	37	29	21	13	5	0	0	0	0
600	610	71	63	54	46	38	30	22	14	6	0	0	0	0
610	620	72	64	55	47	39	31	23	15	7	0	0	0	0
620	630	73	65	56	48	40	32	24	16	8	0	0	0	0
630	640	74	66	57	49	41	33	25	17	9	1	0	0	0
640	650	75	67	58	50	42	34	26	18	10	2	0	0	0
640	650	77	69	60	52	44	36	28	20	12	4	0	0	0
640	650	78	70	62	54	46	38	30	22	14	5	0	0	0

Step #2 Find the column headed "6 withholding allowances."

		MARRIED Persons - WEEKLY Payroll Period												
If the wages are-- At least	But less than	And the # of withholding allowances claimed is--												
		0	1	2	3	4	5	6	7	8	9	10		
		The amount of income tax to be withheld is--												
\$ 390	\$ 400	41	33	24	16	8	0	0	0	0	0	0	0	0
400	410	42	34	26	18	10	2	0	0	0	0	0	0	0
540	550	63	55	47	39	31	23	15	7	0	0	0	0	0
550	560	65	57	48	40	32	24	16	8	0	0	0	0	0
560	570	66	58	50	42	34	26	18	10	2	0	0	0	0
570	580	68	60	51	43	35	27	19	11	3	0	0	0	0
580	590	69	61	52	44	36	28	20	12	4	0	0	0	0
590	600	70	62	53	45	37	29	21	13	5	0	0	0	0
600	610	71	63	54	46	38	30	22	14	6	0	0	0	0
610	620	72	64	55	47	39	31	23	15	7	0	0	0	0
620	630	73	65	56	48	40	32	24	16	8	0	0	0	0
630	640	74	66	57	49	41	33	25	17	9	1	0	0	0
640	650	75	67	58	50	42	34	26	18	10	2	0	0	0
640	650	77	69	60	52	44	36	28	20	12	4	0	0	0
640	650	78	70	62	54	46	38	30	22	14	5	0	0	0

Step #3 Find the amount where they cross. This is the amount to be withheld.

COMPUTE INCOME TAX

Complete Exercise 8-4B, page 286
Use tables on pages 263, 264

FICA TAX WITHHOLDING

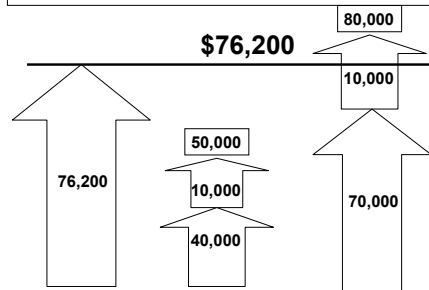
- **FICA is**
 - Social Security
 - Medicare
- **Social Security provides pension and disability benefits**
- **Medicare provides health insurance**
- **Required by the Federal Insurance Contributions Act (FICA)**

FICA TAX WITHHOLDING

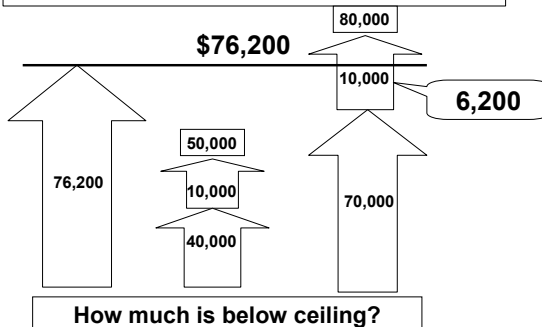
Tax rates are set by Congress

- **Social Security**
 - 6.2% on first \$76,200
- **Medicare**
 - 1.45% on ALL earnings
- **Rates, amounts change frequently**

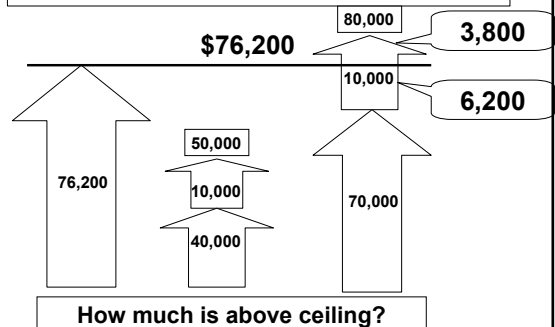
SOCIAL SECURITY



SOCIAL SECURITY



SOCIAL SECURITY



FICA TAX WITHHOLDING

- Year-to-date before pay period \$70,040
- How far to ceiling? 6,160 (76,200 - 70,040)
- Employee earnings of \$1,500 this week

Earnings have not yet reached the maximum of \$76,200. ALL of her earnings for this week are subject to Social Security and Medicare tax.

FICA TAX WITHHOLDING

- Employee earnings of \$1,500 this week
- Year-to-date after pay period \$75,540

Gross Pay	X	Tax Rate	=	Tax
\$1,500		Social Security 6.2%		\$93.00
		Medicare 1.45%		<u>21.75</u>
				<u>\$114.75</u>

FICA TAX WITHHOLDING

- Year-to-date before pay period \$75,540
- How far to \$76,200 ceiling? \$660.
- Employee earnings of \$ 1,260 this week
- Year-to-date after pay period \$ 76,800

Amount subject to S.S. tax	660
Tax Rate	6.2%
Social Security Tax	<u>\$ 40.92</u>

FICA TAX WITHHOLDING

- Employee earnings of \$ 1,260 this week

Gross Pay \$1,260

Medicare has no maximum earnings. Therefore, all Sarah's gross pay is subject to the Medicare tax.

FICA TAX WITHHOLDING

- Employee earnings of \$ 1,260 this week

Gross Pay	\$1,260
Tax Rate	1.45%
Medicare Tax	<u>\$ 18.27</u>

VOLUNTARY DEDUCTIONS

- Health insurance premiums
- Union dues
- Pension plan payments, 401(k)
- Charitable contributions

COMPUTING NET PAY

- Employee married (page 264)
- Claims 6 allowances
- Gross earnings of \$545 for the week

Gross Pay	\$545.00
Deductions:	
Federal Income Tax	\$15.00

From Wage Bracket Tables

COMPUTING NET PAY

- Employee married
- Claims 6 allowances
- Gross earnings of \$545 for the week

Gross Pay	\$545.00
Deductions:	
Federal Income Tax	\$15.00
Social Security Tax	33.79

All his pay is subject to S.S. tax:
\$545 x 6.2%

COMPUTING NET PAY

- Employee married
- Claims 6 allowances
- Gross earnings of \$545 for the week

Gross Pay	\$545.00
Deductions:	
Federal Income Tax	\$15.00
Social Security Tax	33.79
Medicare Tax	7.90

}

\$545 x 1.45%

COMPUTING NET PAY

Health insurance premiums are \$10 per week.

Gross Pay	\$545.00
Deductions:	
Federal Income Tax	\$15.00
Social Security Tax	33.79
Medicare Tax	7.90
Health Insurance	<u>10.00</u>
Total Deductions	66.69
Net Pay	<u>\$478.31</u>

COMPUTE INCOME TAX

Complete Exercise 8-5B, page 286

GENERAL JOURNAL

	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					

Journal entries are now made to record
the payroll expenses and liabilities.

GENERAL JOURNAL					
	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					

Payroll Register is the source for the journal entry.

GENERAL JOURNAL					
	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1	Dec. 19	Wages and Salaries Expense		5,435.00	
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					

GROSS PAY

GENERAL JOURNAL					
	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1	Dec. 19	Wages and Salaries Expense		5,435.00	
2		Employee Income Tax Pay.			576.00
3		Social Security Tax Payable			299.77
4		Medicare Tax Payable			78.81
5		Health Ins. Prem. Payable			46.00
6		United Way Contrib. Pay.			40.00
7					
8					
9					
10					
11					

Each deduction is recorded in a separate liability account.

GENERAL JOURNAL					
	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1	Dec. 19	Wages and Salaries Expense		5,435.00	
2		Employee Income Tax Pay.			576.00
3		Social Security Tax Payable			299.77
4		Medicare Tax Payable			78.81
5		Health Ins. Prem. Payable			46.00
6		United Way Contrib. Pay.			40.00
7		Cash			4,394.42
8					
9					
10					
11					

NET PAY

