

Name: KEY

CHAPTER 3 NOTES

3.1: PAYROLL RECORDS FOR EMPLOYEE EARNINGS & DEDUCTIONS

- **Salary** - money paid for employee services
- Federal, state, and local laws require employers to keep accurate records of the money paid to employees and of other payments related to employee services.
- **Pay Period** - period covered by a salary payment
- **Payroll** - total amount earned by all employees for a pay period
- **Payroll Taxes** - taxes based on the payroll of a business
- Periodically, employers must pay government agencies all payroll taxes withheld from employee salaries as well as the employer payroll taxes.
- **Form W-2** - yearly report distributed to employees showing total salary earned + taxes withheld
 - Must be distributed to employees by January 31.

PAYROLL DEDUCTIONS

- **FICA (F ederal I nsurance C ontributions A nd) Taxes**
 1. **Social Security Tax**
 - Finances old-age, survivors, + disability insurance
 - Calculated on employee earnings up to a maximum paid in a calendar year.
 - **Tax Base** - maximum amount of earnings on which a tax is calculated
 - The social security tax rate and base used in this textbook are 6.2 % of earnings up to a maximum of \$ 87,000 in each calendar year.
 2. **Medicare Tax**
 - Finances hospital insurance
 - Medicare does not have a tax base.
 - The Medicare tax rate used in this textbook is 1.45 % of total employee earnings.
- **Federal Income Tax**
 - Determined by total earnings, marital status, + # of withholding allowances
 - **Withholding Allowance** - deduction from total earnings for each person legally supported by a tax payer
- Some businesses also make deductions from employee earnings for health insurance, life insurance, pension plans, and savings deposits.

CALCULATING EMPLOYEE EARNINGS

Hourly Employees:

- In this textbook, employees usually work only a 5-day week of 40 hours. Therefore, a biweekly pay period is 80 hours.
- All time worked in excess of 40 hours in any one week is considered overtime. Employees are paid 1 1/2 times the regular rate for overtime hours.
- Employee regular earnings are calculated by multiplying the hourly rate by the number of regular hours.

Commissions Records:

- An employee's basic salary may be supplemented by other types of earnings like: commissions, cost-of-living adjustments, a share of profits, or a bonus.
- In this textbook, department supervisors are paid a regular biweekly salary. They are not paid for overtime hours. To encourage increased sales, they are paid a 1% commission on the department's monthly net sales.

SAMPLE PROBLEM (WT 3.1-PART ONE)

1. Prepare a commissions record for Allison Cavero, Supervisor of the Hardware Department, for June of the current year. Ms. Cavero, Employee No. 2, is paid a biweekly salary of \$1,200 and receives a monthly commission of 1% of net sales. Commissions for the previous month are paid in the first pay period the current month. Accounting records for the Hardware Department for the month ended June 30 of the current year are as follows: sales on account, \$17,895; cash and credit card sales, \$15,523; sales discount, \$179; sales returns and allowances, \$2,039.

COMMISSIONS RECORD			
Employee No.	<u>2</u>	Employee Name	<u>Allison Cavero</u>
Commission Rate	<u>1%</u>	Month	<u>JUNE</u>
Department	<u>Hardware</u>	Regular Biweekly Salary	<u>\$1,200</u>
		Year	<u>20--</u>
Sales on Account		<u>17,895</u>	
+ Cash and Credit Card Sales		<u>15,523</u>	
= equals Total Sales for the Month		<u>33,418</u>	
Less:			
Sales Discounts		<u>179</u>	
+ Sales Returns and Allowances		<u>2,039</u>	
		<u>-2,218</u>	
Equals:			
Net Sales		<u>31,200</u>	
times Commission Rate		<u>x .01</u>	
equals: Commission on Net Sales		<u>\$312</u>	

(Appl. 3.1)

PREPARING A PAYROLL REGISTER

- **Payroll Register** - a business form used to record payroll information

SAMPLE PROBLEM (WT 3.1-PART TWO)

Santa Clara Hardware's partial payroll register for the pay period ended July 3, 20—is provided below. Use the appropriate withholding tax tables shown in the pages that follow to determine the federal income tax. Deductions for all employees are 5% of total earnings for state income tax, 6.2% for social security tax, and 1.45% for Medicare tax. Use H to indicate health insurance and L to indicate life insurance. Save this work to complete WT 3.2.

Prepare the payroll register entries for the following two employees (*Note: On the payroll register, write the last name of the employee before the first name):

1. On line 1: Allison Cavero, Employee No. 2, Hardware Department supervisor, married, two allowances, regular salary of \$1,200 per pay period plus 1% of net sales. Use the commission calculated in WT 3.1-Part One. Health insurance premium is \$56 and life insurance premium is \$25.60.
2. On line 4: James Lee, Employee No. 4, Hardware Department salesclerk, single, one allowance, regular salary of \$10 per hour with overtime paid at 1 ½ times the regular rate. He worked 80 hours regular time and 8 hours overtime. Health insurance premium is \$28.

PAY PERIOD ENDED 7/3/20--

PAYROLL REGISTER

EMPL. NO.	EMPLOYEE'S NAME	MARITAL STATUS	NO. OF ALLOWANCES	TOTAL HOURS	EARNINGS				DEPARTMENT		ADMIN. SALARIES
					REGULAR	OVERTIME	COMMISSION	TOTAL	HARDWARE	PAINT	
1	ALLISON Cavero, Allison M	M	2	-	1200	-	312	1512	1512	-	-
4	JAMES Lee, James	S	1	88	800	120	00	920	920	-	-
15					14,180.00	776.40	582.00	15,538.40	7,605.80	5,070.60	2,862.00

DATE OF PAYMENT 7/10/20--

DEDUCTIONS							PAID	
FEDERAL INCOME TAX	STATE INCOME TAX	SOC. SEC. TAX	MEDICARE TAX	OTHER		TOTAL	NET PAY	CHECK NO.
117	75.60	93.74	21.92	H	56	389.86	1122.14	1
				L	25.60			
93	46	57.04	13.34	H	28	137.38	682.62	4
1,305.00	776.92	963.38	225.31	H	588.00	3,961.01	11,577.39	15
				L	102.40			

PREPARING AN EMPLOYEE EARNINGS RECORD

- A business must send a quarterly report to federal and state governments showing employee taxable earnings and taxes withheld from employee earnings.
- Employee Earnings Record** - business form used to record details affecting payments made to an employee
 - A new earnings record is prepared for each employee each pay period.
 - Accumulated earnings are often referred to as year-to-date earnings. These are needed for each employee because certain payroll taxes do not apply after an employee's earnings reach a certain tax base.

SAMPLE PROBLEM (WT 3.1-PART THREE)

A blank earnings record form for Santa Clara Hardware is provided below. Save this work to complete WT 3.2.

- Prepare James Lee's earnings record for the first pay period of the quarter ended September 30, 20--. Accumulated earnings for the quarter ended June 30, 20--are \$11,900.

EARNINGS RECORD FOR QUARTER ENDED September 30, 20--

EMPLOYEE NO. 4 NAME Lee, James SOCIAL SECURITY NO. 555-72-5782
 MARITAL STATUS S WITHHOLDING ALLOWANCES 1 HOURLY RATE \$10.00 SALARY —
 DEPARTMENT Hardware POSITION Salesclerk

1		3	4	5	6	7	8	9	10	11
PAY PERIOD		TOTAL EARNINGS	DEDUCTIONS						NET PAY	ACCUMULATED EARNINGS
NO.	ENDED		FEDERAL INCOME TAX	STATE INCOME TAX	SOC. SEC. TAX	MEDICARE TAX	OTHER	TOTAL		
1	<u>7/3</u>	<u>920</u>	<u>93</u>	<u>40</u>	<u>57.04</u>	<u>13.34</u>	<u>H</u>	<u>28</u>	<u>137.38</u>	<u>682.62</u>
										<u>11,900</u>
										<u>12,820</u>



$$= \text{Acc. Eam.} + \text{Total Eam.}$$

$$= 11,900 + 920$$

3.2: RECORDING A PAYROLL AND PAYROLL TAXES

PAYROLL BANK ACCOUNT

- In this textbook, employees are paid biweekly by check.
- A special payroll checking account and special payroll checks are used. After a biweekly payroll register has been completed, a check is written on a business's general checking account payable to Payroll for the total net pay.

AUTOMATIC CHECK DEPOSIT

- Automatic Check Deposit - depositing payroll checks directly to an employee's checking or savings account in a specific bank
- Electronic Funds Transfer (EFT) - computerized cash payments system that transfers funds w/o the use of checks, currency, or other paper docs

JOURNALIZING PAYMENT OF A PAYROLL

SAMPLE PROBLEM (WT 3.2-PART ONE)

Use the solution from WT 3.1. A cash payments journal, page 15, is provided below.

- Journalize the following transaction for July of the current year.

July 10 Paid July 3 Payroll. Check No. 260.

CASH PAYMENTS JOURNAL

PAGE

15

DATE	ACCOUNT TITLE	CK. NO.	POST REF.	GENERAL		ACCOUNTS PAYABLE DEBIT	PURCH. DISCOUNT CREDIT		CASH CREDIT	
				DEBIT	CREDIT		HARDWARE	PAINT		
1 7/10/19	Salary Exp. - Hardware	260		7605.80					11577.39	1
2	Salary Exp. - Paint			5070.60						2
3	Salary Exp. - Admin.			1862						3
4	Emp. Inc. Tax Pay. - Fed.				1305					4
5	Emp. Inc. Tax Pay. - State				776.92					5
6	Soc. Sec. Tax Payable				963.38					6
7	Medicare Tax Payable				215.31					7
8	Health Ins. Premium Pay.				588					8
9	Life Ins. Premium Payable				102.40					9

EMPLOYER PAYROLL TAXES

- Most employers have four separate payroll taxes:
 - Medicare Social Security Tax
 - Medicare Tax
 - Federal Unemployment Tax
 - State Unemployment Tax

CALCULATING EMPLOYER PAYROLL TAXES

- Employer payroll taxes expense is based on a percentage of employee earnings.
- Employer social security tax (10.1 %) and Medicare tax (1.45 %) rates are the same as the rates used for employees. The Federal unemployment tax is 0.8% of the first \$ 7,000 earned by each employee. State unemployment tax is 9.4 % of the first \$ 7,000 in earnings.

SAMPLE PROBLEM (WT 3.2-PART TWO)

- Use the grid below to calculate departmental payroll taxes. There are two taxable earnings columns, one for FICA Taxable Earnings and one for Unemployment Taxable earnings, since the bases for these two classes of salaries are different for this period. Social security and Medicare taxes are due on total earnings for this period. Unemployment taxes are due on total earnings for this period. Unemployment taxes are due on the following earnings for this period: Hardware, \$2,132; Paint, \$1,983; and Administrative, \$985.

Department	FICA Taxable Salaries	Unemployment Taxable Salaries	Social Security 6.2%	Medicare 1.45%	Federal Unemployment 0.8%	State Unemployment 5.4%	Total
Hardware	\$7,605.80	\$2,132.00	471.56	110.28	17.06	115.13	714.03
Paint	5,070.60	1,983.00	314.38	73.52	15.86	107.08	510.04
Administrative	2,862.00	985.00	177.44	41.50	7.88	53.19	280.01
Total	\$15,538.40	\$5,100.00	963.38	225.30	40.80	275.40	1504.88

JOURNALIZING EMPLOYER PAYROLL TAXES

- At the time the payment of payroll is recorded, employer payroll taxes for that pay period will also be recorded in the general journal.

SAMPLE PROBLEM (WT 3.2-PART THREE)

Use the solution from WT 3.2-Part Two. A general journal, page 7, is provided below.

- Journalize the following transaction for July of the current year.

July 10 Recorded employer's payroll taxes for the pay period ended July 3. Memo. No. 33.

*Note: A small rounding difference exists between the total Medicare tax amount in the Payroll Register (WT 3.1) and the allocation of that tax to the departments in the schedule of departmental payroll taxes (WT 3.1-Part Two). Such differences are normal when total amounts are allocated to departments. Journalize the Cash Payments Journal entry using the appropriate amounts from the payroll register, and journalize the General Journal entry using the schedule of departmental payroll taxes.

GENERAL JOURNAL

PAGE 7

						1	2	
DATE		ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT		CREDIT	
2019	July 10	Payroll Tax Exp. - Hardware	M33		714.03			1
		Payroll Tax Exp. - Paint			510.04			2
		Payroll Tax Exp. - Admin.			280.01			3
		Soc. Sec. Tax Pay.					963.38	4
		Medicare Tax Pay.					225.30	5
		Unempl. Tax Pay.					40.80	6
		Unempl. Tax Pay.					275.40	7

JOURNALIZING THE PAYMENT OF PAYROLL TAXES

- The frequency of the payments of payroll taxes is determined by the AMOUNT owed.
 - In this textbook, a business will be a monthly depositor for **employee's federal income taxes and employee/employer social security and Medicare taxes**. Taxes must be paid by the 15th day of the month following the pay period.
 - For **federal and state unemployment taxes**, a business will make payments quarterly. Payments must be made by the last day of the month following the end of the quarter.

SAMPLE PROBLEM (WT 3.2-PART FOUR)

Use the solution from WT 3.2-Part Two. The continuation of the cash payments journal, page 15, is provided below.

- Journalize the following transaction for July of the current year.

July 15 Paid employees' federal income tax withholding, social security tax, and Medicare tax liabilities for the pay period ended July 3. Check No. 265.

29 Paid federal unemployment tax, \$745.84, and state unemployment tax, \$5,034.44, for the quarter ended June 30. Check No. 270.

CASH PAYMENTS JOURNAL

PAGE 15

	DATE	ACCOUNT TITLE	CK. NO.	POST REF.	GENERAL		ACCOUNTS PAYABLE DEBIT	PURCH. DISCOUNT CREDIT		CASH CREDIT	
					DEBIT	CREDIT		HARDWARE	PAINT		
10	4/15 15	EMP. INC. TAX PAY.	265		1305					3687.36	10
11		SOC. SEC. TAX PAY.			1976.76						11
12		MEDICARE TAX PAY.			450.00						12
13	29	Unempl. Tax Pay. - Fed.	270		745.84					5780.28	13
14		Unempl. Tax Pay. - State			5034.44						14
15											15