

Chapter 10 • Payroll Computations, Records, and Payment

TEACHING OBJECTIVES

- 10-1) Explain the major federal laws relating to employee earnings and withholding.
- 10-2) Compute gross earnings of employees.
- 10-3) Determine employee deductions for social security tax.
- 10-4) Determine employee deductions for Medicare tax.
- 10-5) Determine employee deductions for income tax.
- 10-6) Enter gross earnings, deductions, and net pay in the payroll register.
- 10-7) Journalize payroll transactions in the general journal.
- 10-8) Maintain an earnings record for each employee.
- 10-9) Define the accounting terms new to the chapter.

SECTIONS

- 1. Payroll Laws and Taxes
- 2. Calculating Earnings and Taxes
- 3. Recording Payroll Information

CHAPTER OVERVIEW/ LEARNING OBJECTIVES

Learning Link: Chapter 9 discussed several aspects of business accounting, including special journals, the petty cash fund, and bank reconciliations. Chapter 10 continues the study of business accounting by discussing payroll accounting.

- 10-1) This chapter explains the major federal laws relating to employee earnings and withholding including the federal *Wage and Hour Law* which limits the number of hours per week an employee can work to 40. The chapter also describes the mandatory taxes that must be withheld from an employee's paycheck.
- 10-2) The chapter explains how to compute gross earnings for an employee.
- 10-3) The chapter explains how the *Social Security* tax is levied in an equal amount on both the employer and the employee. The tax is a percentage of the employee's gross wages during a calendar year up to a wage base limit.
- 10-4) The chapter explains how the *Medicare* tax is levied in an equal amount on both the employer and the employee. It explains that there is no limit on the amount of medicare tax that can be withheld from an employee's paycheck because there is no wage base limit.
- 10-5) The chapter describes how to figure the amount of income tax to withhold from an employee's paycheck. There are several methods which can be used to compute the amount of federal income tax to be withheld, but the ***Wage-Bracket Table Method*** is most often used.

- 10-6) The chapter illustrates how to enter each employee's gross earnings, deductions, and net pay in a **payroll register**. The payroll register is the summary record keeping device used for each pay period. It is the basis for the journal entry to record the payroll.
- 10-7) The chapter explains the general journal entries required to record payroll expense and liability amounts each pay period.
- 10-8) The chapter describes how at the beginning of each year, the employer sets up an individual earnings record for each employee. The amounts in the payroll register are posted to the individual earnings records throughout the year so that the firm has detailed payroll information for each employee. At the end of the year, employers provide W-2 reports that show gross earnings and total deductions to each employee.

At the beginning of the chapter, there is a short paragraph about *H & R Block*. Let's read this together.

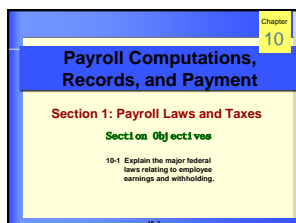


Ask. . . "What types of benefits would be important to you if you worked for a company like H & R Block.

Answer-- Students might mention benefits like flextime, healthcare, and paid vacation. Other possible benefits might include profit sharing, bonus plans, or tuition reimbursement plans.

- **FAST FACTS:** In the 1940's, Henry, Leon and Richard Bloch borrowed \$5,000 from a relative and founded United Business Company, an accounting firm.
- The company later changed its name to H & R Block and shifted their focus from accounting to tax services.
- The company has filed over 500 million tax returns since 1955. In 2012, the company reported 4.1 billion in revenues.

Section 1. PAYROLL LAWS AND TAXES

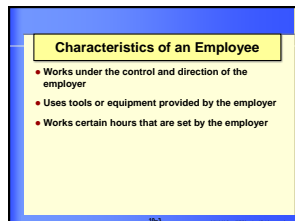


Ask, "Does anyone here work?"



Ask, "Are you an *employee* or *independent contractor* (self-employed)?"

- Explain that *employees'* taxes are withheld from gross earnings and paid to the federal government by the employer; *independent contractors* (self-employed) pay their own taxes.



A. Who Is an Employee?

- Explain that, in most situations, an "*employee*" works in the employer's facility, using the employer's tools, under the employer's direct supervision. An *independent contractor* works unsupervised, usually away from the employer's facility.

Objective 10-1

B. Federal Employee Earnings and Withholding Laws

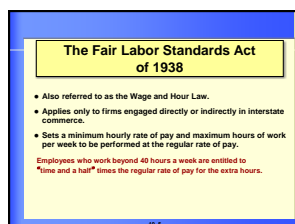
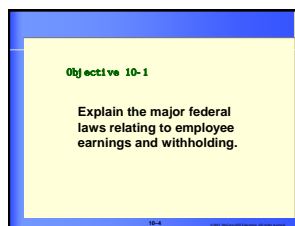
- Describe that federal law requires employers to withhold federal income tax, social security tax (FICA), and Medicare tax from earnings.

◆ The Fair Labor Standards Act

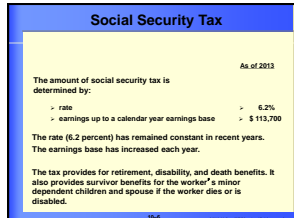


Ask, "Is anyone familiar with the minimum wage law and overtime provisions?"

- Explain that the *Fair Labor Standards Act* fixes minimum wage and the maximum number of hours or work per week to be performed at the regular rate of pay.
- Stress that hours worked in excess of 40 must be paid at time and a half.



Social Security Tax

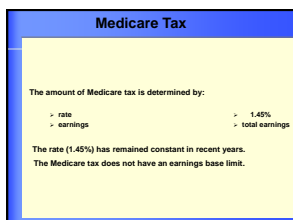


- Explain that social security tax provides benefits for employees and their families:
 1. Retirement benefits or pension
 2. Benefits for the dependents of a deceased worker.
 3. Benefits for the worker and the worker's dependents when the worker is disabled.
- Explain that this book's tax rate of 6.2% on the first \$113,700 of salary or wages is for illustration purposes only. While the tax rate remains fairly constant, the wage base usually increases annually. For 2013, the social security was 6.2% on the first \$113,700 of salary or wages.
- Point out that the tax is paid by both the employer and the employee.



Ask, "Does anyone know how the tax is shared by both the employee and the employer?"

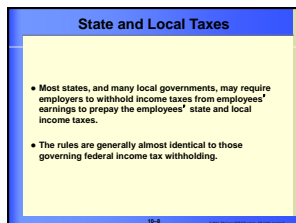
◆ Medicare Tax



- Point out that this tax is also paid by both the employer and the employee.
- Tell students that the current rate is 2.9%. 1.45% is withheld from the employee's paycheck and the other 1.45% of the employee's tax is paid by the employer.

◆ Federal Income Tax

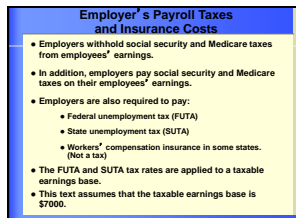
- Remind students that employers are required to withhold from the employee's earnings.
- Point out that the amount is based on the estimated amount of income tax that will be payable by the employee on earnings.



C. State and Local Taxes

- Point out that employees subject to federal income tax withholding are also subject to state and/or local income tax withholding in most states.
- Point out that there are a few states which don't require employees to pay state income taxes (Alaska, Texas, etc.)

D. Employer's Payroll Taxes and Insurance Costs



- Point out that the employer must pay payroll taxes:
 1. *State Unemployment Tax (SUTA)*
 2. *Federal Unemployment Tax (FUTA)*
 3. *Social Security Tax (1/2 of employee's)*
 4. *Medicare Tax (1/2 of employee's)*
- Explain that, in addition, most states require businesses to provide worker's compensation insurance. This is not a tax, but is part of a business's insurance expense.

◆ Social Security Tax

- Explain that employee and employer pay equal shares of the employee's social security tax:

Employee (withheld)	6.2%
Employer (match)	<u>6.2%</u>
Total	<u>12.4%</u>

- Remind students that the rate used in this text is 6.2% of the first **\$113,700** of gross earnings paid to each employee during the year.

◆ Medicare Tax

- Explain that the current Medicare rate is 1.45% on both the employee and employer for all wages earned during the period:

Employee (withheld)	1.45%
Employer (match)	<u>1.45%</u>
Total	<u>2.90%</u>

- Remind students that there is no wage base maximum for Medicare taxes.

◆ Federal Unemployment Tax

- Describe the Federal Unemployment Tax Act (FUTA)
- Explain that the law provides benefits for employees who become unemployed.

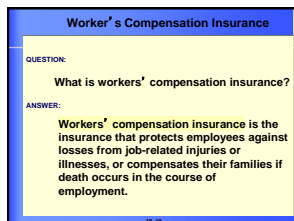
- Point out that employers pay the entire amount of FUTA.
- Explain that the tax applies to only the first \$7,000 of each employee's earning for the year.
- Point out that the FUTA rate can be reduced by the rate charged by the state, so that the FUTA tax can be as low as .6%.

◆ State Unemployment Tax

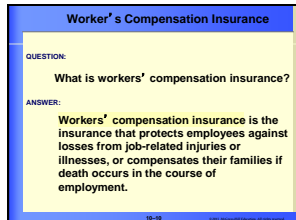
- Explain that the SUTA base rate is often the same as FUTA.
- Emphasize that the employer reduces the FUTA rate by the amount of the SUTA rate up to a maximum reduction of 5.4%.

◆ Workers' Compensation Insurance

- In states where it is required, employers pay for insurance that will reimburse employees for losses resulting from job-related injuries or will compensate their families in the event of death in the course of their employment.

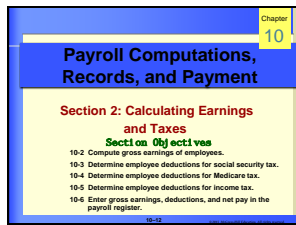


E. Employee Records Required by Law



- Describe the payroll records which are maintained by the employer:
 - The employee's name, address, SS number & date of birth.
 - Hours worked each pay period.
 - Cumulative earnings throughout the year.
 - Amount of withholdings each pay period.
 - Proof that the employee is a US citizen or has a valid work permit.
- Point out that failure to keep proper payroll records can result in hefty penalties for businesses. (**True story:** A small jewelry concession business operating in Illinois was ordered to pay penalties in the amount of \$91,000 when they were not able to produce payroll records requested by the U.S. Labor Department.)

Section 2. CALCULATING EARNINGS AND TAXES



- Discuss the following details of the furniture company profiled in the text.
 1. Employees are subject to social security tax, Medicare tax, and federal income tax withholding.
 2. Owner's withdrawals are not treated as wages.
 3. The firm is subject to social security tax, Medicare tax, federal and state unemployment taxes.
 4. The firm is subject to the *Fair Labor Standards Act* and is required by the state to carry worker's compensation insurance.

A. Computing Total Earnings of Employees

- Point out that gross pay is computed differently for different classes of employees: (**Hourly rate basis /Salaried basis/ Commission basis/ Piece-rate basis**).

B. Determining Pay for Hourly Employees

- Explain that two pieces of data are needed to compute gross pay for *hourly rate basis* employees: the number of hours worked during the period, and the rate of pay.

Objective 10-2

Objective 10-2 Compute Gross Earnings of Employees.

The first step in preparing payroll is to compute the gross wages or salary for each employee. There are several ways to compute earnings.

- Hourly rate basis
- Salary basis
- Commission basis
- Piece-rate basis

◆ Hours Worked

- Point out that businesses use many ways to keep track of the number of hours an employee works.



Ask, "Can anyone explain how their employer keeps track of the number of hours they work?" (Time sheets, Time cards, etc.)

◆ Gross Pay

Teaching Tip: Have students compute *gross pay* for the following situations:

1. Hourly employee, working 32 hours @ \$6.50 per hour (**\$208**)
2. Commissioned employee with sales of \$2,000. Commission is 15 percent of sales. (**\$300**)
3. Salaried employee working one month at \$2,000 per month. (**\$2,000**)

TEACHING TIP: Use the chalkboard to demonstrate the calculation of gross pay including **OVERTIME PAY** using the two methods specified in the student text.

Computing Gross Pay

The gross pay for hourly employees for the week ended January 6 is determined as follows:

	Total hours	Rate of pay	Gross pay
Alicia Martinez	40 hours	X \$ 10.50	= \$420.00
Jorge Rodriguez	40 hours	X \$ 9.50	= \$380.00

Overtime

George Dunlap earns \$9.00 per hour. He worked 45 hours. He is paid 40 hours regular rate of pay and 5 hours at time and a half.

Therefore, Dunlap's gross pay adds up to:

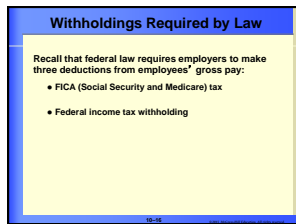
Regular earnings:	40 hours X \$ 9.00	=	\$360.00
Overtime earnings:	5 hours X \$13.50	=	\$ 67.50
Gross Pay			\$427.50

1. The **Wage and Hour Law method**. This method identifies the *overtime premium*, the amount the firm could have saved if all the hours were paid at the regular rate.
2. The **second method** identifies how much the employee earned by working overtime.

◆ Withholdings for Hourly Employees

□ Required by Law

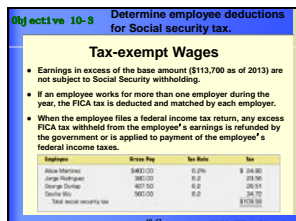
- Outline the three principal deductions (withholdings) from an employee's gross pay required by federal law:



Objective 10-3

□ Social Security Tax

- Remind students that the employee and employer pay equal shares of the employee's social security tax:



Employee (withheld)	<u>6.2%</u>
Employer (match)	<u>6.2%</u>
Total	<u>12.4%</u>

- Remind students that the rate used in this text is 6.2% of the first \$113,700 of gross earnings paid to each employee during the year.
- Point out that if an employee works for more than one employer, FICA taxes are deducted and matched by each employer. When the employee files a federal income tax return, any excess tax is refunded. (The employer, however would not receive any refund)
- Demonstrate the calculation of Social Security tax.

Objective 10-4

Objective 10-4 Determine employee deduction for Medicare tax.

Medicare Tax

To compute the Medicare tax to withhold from the employee's paycheck, multiply the wages by the Medicare tax rate, 1.45 percent.

Employee	Gross pay	Tax rate	Tax
Alicia Martinez	\$400.00	X 1.45%	= \$ 5.80
Jorge Rodriguez	380.00	X 1.45	= \$ 5.51
George Dunlap	427.50	X 1.45	= \$ 6.20
Cecilia Wu	560.00	X 1.45	= \$ 8.12
Total Medicare tax			\$25.63

Medicare Tax

- Remind students that the current Medicare rate is 1.45% on both the employee and employer for all wages earned during the period:

Employee (withheld)	1.45%
Employer (match)	<u>1.45%</u>
Total	<u>2.90%</u>

- Remind students that there is no wage base maximum for Medicare taxes.
- Demonstrate the calculation of Medicare tax.

Objective 10-5

Objective 10-5 Determine employee deductions for income tax.

The amount of federal income tax to withhold from an employee's earnings depends on the:

- earnings during the pay period.
- frequency of the pay period (weekly, bi-weekly, semi-monthly etc.)
- marital status.
- number of withholding allowances.

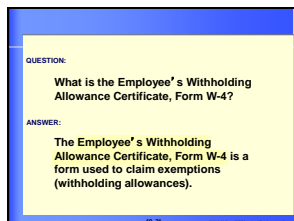
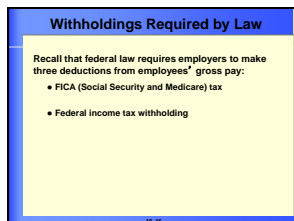
Federal Income Tax

- Point out that a substantial portion of the federal government's revenue comes from the income tax on individuals.
- Remind students that employers are required to withhold federal income tax from employee's pay.
- Emphasize that the law requires employee's to ***"pay as you go."*** (In other words, they can't wait until the end of the year to pay the taxes that they owe.)



Ask, "Why not?" Because people don't save . . .

- **Withholding Allowances**
 - Explain that withholding depends on earning, length of pay period, marital status, and number of allowances.
 - Explain that an allowance generally refers to the number of exemptions the person is going to claim at the end of the year on their income tax return (Form 1040).
 - An allowance would generally be claimed for:
 - ✓ The taxpayer,
 - ✓ A spouse who does not also claim an allowance,
 - ✓ Each dependent



Refer to figure 10-1:

- To claim withholding allowances, each employee completes an *Employee's Withholding Allowance Certificate, Form W-4*.



Ask, "Would anyone like to share how many withholding allowances they claimed on their W-4?"

Refer to Figure 10-2A:

Computing Federal Income Tax Withholding

- The wage-bracket table method is the most common way to compute the federal income tax withholding.
- The wage-bracket tables are in the Federal Publication 15, Circular E.

Cecilia Wu is married, claims two withholding allowances, and earned \$560 for the week.

MARRIED Persons—WEEKLY Payroll Period

If the wages are—
 At least But less than

At least	But less than	1	2	3	4	5	6	7	8	9	10
520	530	43									
530	540	43									
540	550	43	24	12	0	0	0	0	0	0	0
550	560	43	24	12	0	0	0	0	0	0	0
560	570	43	24	12	0	0	0	0	0	0	0

The tax to withhold is \$30; this is where the row and column intersect.

- Go to the table for married persons paid weekly.
- Find the line covering wages between \$560 and \$570. Find the column for two withholding allowances.

- Computing Federal Income Tax Withholding
 - Explain the tax withholding calculation steps:
 - Choose the proper table based on pay period and employee's marital status.
 - Find the line on the table that covers the wages earned.
 - Follow that line to the column with the number of withholding allowances claimed.
 - Emphasize the use of the first two columns in which wages are "At least, but less than" certain designated ranges.

Teaching Tip: Have students use these tables to determine the withholding amounts for the following situations:

- Single person with two exemption allowances and \$500 gross earnings. (**\$43**)
- Married person with one exemption allowance and \$725 gross earnings (**\$63**)

- Other Deductions Required by Law
 - Explain that most states and some local governments require employees to withhold state and local income taxes as well.

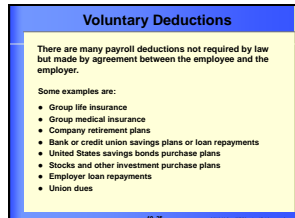
Other Deductions Required by Law

- Most states and some local governments require employers to withhold state and local income taxes from earnings.
- In some states employers are also required to withhold unemployment tax or disability taxes.
- The procedures are similar to those for federal income tax withholding.
- Apply the tax rate to the earnings, or use withholding tables.

◆ Withholdings Not Required by Law



Ask, "Can anyone think of any other types of deductions which you could voluntarily have withheld from your paycheck?" (retirement, health insurance, charity, etc.)



C. Determining Pay for Salaried Employees

- Explain that a salaried employee earns a specific sum of money for each payroll period, no matter how many hours they actually work.

◆ Hours Worked

- Point out that salaried worker who do not hold supervisory jobs are generally covered by the provisions of the *Wage and Hour Law* (maximum hours and overtime premiums).
- Emphasize that this means time records must be kept for these employees.
- Salaried workers who do hold supervisory or managerial positions are called *exempt* employees. They are not subject to the maximum hour and overtime premium pay provisions of the law.

◆ Gross Earnings

- Discuss the example given in the text: Cynthia Booker worked for 40 hours. NO overtime premium is involved and the salary of \$480 per week is the gross pay for the week.

Point out that if she had worked more than 40 hours, the overtime premium would have been calculated for the hours worked in excess of 40.

◆ **Withholdings for Salaried Employees Required by Law**

- Explain that the taxes withheld from salaried employees are determined by the same methods as those of hourly employees.

Objective 10-6 Enter gross earnings, deductions, and net pay in the payroll register.

PAYROLL REGISTER					
		WEEK BEGINNING		January 1, 2016	
NAME	NO. OF ALLOW.	MARITAL STATUS	CUMULATIVE EARNINGS	NO. OF HRS.	RATE
Martinez, Alicia	1	M		40	10.00
Rodriguez, Jorge	1	S		40	5.00
Davies, George	2	S		40	5.00
Wu, Carol	2	M		40	14.00
Boeker, Cynthia	1	S		40	400.00
(A)	(B)	(C)	(D)	(E)	(F)

Enter the employee's name (Column A), number of withholding allowances and marital status (Column B), and rate of pay (Column F).

Objective 10-6

D. Recording Payroll Information for Employees

- Tell students that many employers use a payroll register to track employees earning and withholdings.

Refer to Figure 10-3:

◆ **The Payroll Register**

- Explain that the payroll register is not a journal but a place to centralize recordkeeping for payroll-related expenses.
- Review the columns in the payroll register.
- Emphasize that the TAXABLE EARNINGS columns are used to determine the amount of taxes for social security, Medicare, and FUTA.
- Explain that after the payroll register is completed, the columns are totaled and the register is proven. (The total of the *Regular Earnings* and the *Overtime Earnings*

Completing the Payroll Register

PAYROLL REGISTER					
		WEEK BEGINNING		January 1, 2016	
NAME	NO. OF ALLOW.	MARITAL STATUS	CUMULATIVE EARNINGS	NO. OF HRS.	RATE
Martinez, Alicia	1	M		40	10.00
Rodriguez, Jorge	1	S		40	5.00
Davies, George	2	S		40	5.00
Wu, Carol	2	M		40	14.00
Boeker, Cynthia	1	S		40	400.00
(A)	(B)	(C)	(D)	(E)	(F)

The Cumulative Earnings column (Column C) shows the total earnings for the calendar year before the current pay period. Since this is the first payroll period for the year, there are no cumulative earnings prior to the current pay period.

Completing the Payroll Register

AND ENDING	January 8, 2016				PAID				January 8, 2016			
	TAXABLE EARNINGS		DEDUCTIONS		TAXABLE EARNINGS		DEDUCTIONS					
NAME	SOCIAL SECURITY	MEDICARE	FUTA	SOCIAL SECURITY	MEDICARE	SOCIAL SECURITY	MEDICARE					
Martinez, Alicia	400.00	40.00	400.00	24.00	5.00							
Rodriguez, Jorge	200.00	20.00	200.00	12.00	2.50							
Davies, George	407.50	40.75	407.50	24.45	6.20							
Wu, Carol	560.00	56.00	560.00	33.60	7.00							
Boeker, Cynthia	1600.00	160.00	1600.00	96.00	20.00							
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)					

The Taxable Earnings column shows the earnings subject to taxes for social security (Column J), Medicare (Column K), and FUTA (Column L). Only the earnings at or under the earnings limit are included in these columns.

Completing the Payroll Register

AND ENDING	January 8, 2016				PAID				January 8, 2016			
	TAXABLE EARNINGS		DEDUCTIONS		TAXABLE EARNINGS		DEDUCTIONS					
NAME	SOCIAL SECURITY	MEDICARE	INCOME TAX	HEALTH INSURANCE	SOCIAL SECURITY	MEDICARE	INCOME TAX	HEALTH INSURANCE				
Martinez, Alicia	24.00	5.00	19.00									
Rodriguez, Jorge	12.00	2.50	14.00									
Davies, George	24.45	6.20	20.00									
Wu, Carol	33.60	7.00	40.00									
Boeker, Cynthia	96.00	20.00	100.00									
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)				

The Deductions columns show the withholding for social security tax (Column M), Medicare tax (Column N), federal income tax (Column O), and medical insurance (Column P).

Completing the Payroll Register

AND ENDING	January 6, 2016				PAID January 6, 2016			
	DEDUCTIONS				DISTRIBUTION			
NAME	INCOME TAX	HEALTH INSURANCE	NET PAYABLE	CHECK NO.	OFFICE SALARIES	SHIPPING WAGES		
Martinez, Alicia	15.00	1.00	214.00	1001	400.00	200.00		
Redington, Jerry	34.00	2.00	244.00	1001	400.00	200.00		
Smith, George	23.00	40.00	237.79	1001	427.50	250.00		
Wu, Carl	20.00	40.00	247.76	1004	400.00	200.00		
Rowler, Cynthia	45.00	30.00	284.28	1005	400.00	200.00		
	137.00	113.00	1,717.25		1,717.25	850.00		
(A)	(C)	(F)	(D)	(R)	(S)	(T)		

Subtract the deductions (Columns M, N, O, and P) from the gross earnings (Column H). Enter the results in the Net Amount column (Column Q). This is the amount paid to each employee.

columns must equal the *Total Earnings* column.)

- Point out that the general journal entry for payroll can be made from this register.

Chapter 10

Payroll Computations, Records, and Payment

Section 3: Recording Payroll Information

Section Objectives

10-7 Journalize payroll transactions in the general journal.

10-8 Maintain an earnings record for each employee.

Section 3. RECORDING PAYROLL INFORMATION

Objective 10-7

Objective 10-7 Journalize payroll transactions in the general journal.

Recording Payroll

Recording payroll information involves two separate entries:

- Record the payroll expense.
- Pay the employees.

A. Recording Payroll

AND ENDING	January 6, 2013				PAID January 6, 2013			
	DEDUCTIONS				DISTRIBUTION			
NAME	INCOME TAX	HEALTH INSURANCE	NET PAYABLE	CHECK NO.	OFFICE SALARIES	SHIPPING WAGES		
Martinez, Alicia	15.00	1.00	214.00	1001	400.00	200.00		
Redington, Jerry	34.00	2.00	244.00	1001	400.00	200.00		
Smith, George	23.00	40.00	237.79	1004	427.50	250.00		
Wu, Carl	20.00	40.00	247.76	1004	400.00	200.00		
Rowler, Cynthia	45.00	30.00	284.28	1005	400.00	200.00		
	137.00	113.00	1,717.25		1,717.25	850.00		

The information in the register is used for recording the payroll expense.

DATE	DESCRIPTION	DEBIT	CREDIT
Jan. 6	Office Salaries Expense	400.00	
	Shipping Wages Expense	1,717.25	
	Social Security Tax Payable		139.35
	Medicare Tax Payable		33.29
	Employee Income Tax Payable		153.50
	Health Insurance Premiums Payable		60.00
	Salaries and Wages Payable		1,845.57
	Payroll for week ending Jan. 6		

- Remind students that the accountant must record payroll transactions in the appropriate journal.

- Emphasize that the payroll register is like a worksheet and is not a journal.

- Point out that gross pay is an expense to the business and must be increased with a debit.

- Refer to the general journal entry in the book and remind students that all withholdings are liabilities; the appropriate liability account must be increased (with a credit) to reflect the increase.

AND ENDING	January 6, 2016				PAID January 6, 2016			
	DEDUCTIONS				DISTRIBUTION			
NAME	INCOME TAX	HEALTH INSURANCE	NET PAYABLE	CHECK NO.	OFFICE SALARIES	SHIPPING WAGES		
Martinez, Alicia	15.00	1.00	214.00	1001	400.00	200.00		
Redington, Jerry	34.00	2.00	244.00	1001	400.00	200.00		
Smith, George	23.00	40.00	237.79	1004	427.50	250.00		
Wu, Carl	20.00	40.00	247.76	1004	400.00	200.00		
Rowler, Cynthia	45.00	30.00	284.28	1005	400.00	200.00		
	137.00	113.00	1,717.25		1,717.25	850.00		

A separate liability account is set up for each deduction.

DATE	DESCRIPTION	DEBIT	CREDIT
Jan. 6	Office Salaries Expense	400.00	
	Shipping Wages Expense	1,717.25	
	Social Security Tax Payable		139.35
	Medicare Tax Payable		33.29
	Employee Income Tax Payable		153.50
	Health Insurance Premiums Payable		60.00
	Salaries and Wages Payable		1,845.57
	Payroll for week ending Jan. 6		

New liability accounts are:

- ✓ Social Security Tax Payable,
- ✓ Medicare Tax Payable,
- ✓ Employee Income Tax Payable,
- ✓ Health Insurance Premiums Payable

B. Paying Employees

Paying Employees

Most businesses pay their employees by check or by direct deposit.

By using these methods, the business avoids the inconvenience and risk involved in dealing with currency.

Paying by Check

Paychecks may be written on

- the firm's regular checking account, or
- a payroll bank account.

Checks Written on a Separate Payroll Account

Many businesses write payroll checks from a separate payroll bank account. This is a two-step process.

1. A check is drawn on the regular bank account for the total amount of net pay and deposited in the payroll bank account.
2. Individual payroll checks are issued from the payroll bank account.

- Explain that almost all businesses pay salaries/wages of employees by check.
- Indicate that the *direct deposit* method is also very popular.

◆ Paying by Check

- Describe that paying by check provides better internal control of the *Cash* account.
- Explain that some businesses set up a separate payroll account to further protect their *Cash* account.
- Remind students that Cash is credited for the net take-home pay.

□ Checks Written on Regular Checking Account

Refer to general journal entry and Figure 10-5

- Indicate that the entry in the *General journal* or in the *Cash Payments journal* is a:
(Dr.) *Salaries and Wages Payable*
(Cr.) *Cash*.

□ Checks Written on a Separate Payroll Account

- Explain that if a business uses a separate payroll checking account then the payment process has two steps:
 1. A check is drawn on the regular bank account for the total amount of net

pay and deposited in the payroll bank account.

2. Individual payroll checks are issued from the payroll bank account.

◆ Paying by Direct Deposit



Ask, "How many of you have your check deposited electronically in your bank account?"

- Explain that the bank electronically transfers net pay from the employer's account to the personal account of the employee.
- On payday, the employee receives a statement showing earnings, deductions, net pay, and the date of deposit.

Paying by Direct Deposit
<ul style="list-style-type: none"> • A popular method of paying employees is the direct deposit method. • The bank electronically transfers net pay from the employer's account to the personal account of the employee. • On payday the employee receives a statement showing gross earnings, deductions, and net pay.

Managerial Implications:

Have students review the paragraph on *Laws and Controls*.



Ask, "What controls would you put into place to prevent payroll fraud?"

Answer—Answers will vary, but students may suggest payroll audits, monitoring of time cards, and division of labor for payroll tasks.

Objective 10-8	Maintain an earnings record for each employee.
QUESTION:	What is an individual earnings record?
ANSWER:	An individual earnings record (also called a compensation report) is a record that contains information needed to compute earnings and complete tax reports.

Objective 10-8

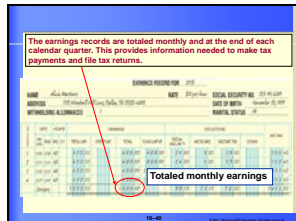
C. Individual Earnings Records



Ask, "Does anyone here keep a running tab of their annual earnings?"

- Employers must maintain this data using an individual earnings record.

- Referring to Figure 10-5, have students describe the information found on an individual earnings record.



The earnings records are totaled monthly and at the end of each calendar quarter. This provides information needed to make tax payments and file tax returns.

NAME	ADDRESS	DATE	EMPLOYER	SOCIAL SECURITY NO.	STATE	DATE OF BIRTH	EMPLOYEE ID NO.
EARNINGS RECORD FOR 2015							
W-2 (Mandatory Reporting)							
Totaled monthly earnings							



Ask, "Can anyone think of what the employer uses this earnings record for at the end of the year?" (Completing Employees' W-2s)

D. Completing January Payrolls

- Point out that, after calculating the gross earnings and withholding for each employee, the business must record this economic event and pay the employees.
- Establish that the accounting sequence of making a journal entry and posting each debit and credit of the entry to the appropriate ledger accounts will complete the payroll record.

Refer to figure 10-5

◆ Entry to Record Payroll

- Review Figure 10-5 (journalizing and posting)
- Explain that, for illustration purposes, this chapter assumes that all employees worked the same number of hours during each week of the month as they did during the first week.
- Remind students that a similar entry is made four times in January.

◆ Entry to Record Payment of Payroll

- Review the journal entry shown in the *Cash Payments Journal*. (figure 10-6)

◆ Postings to Ledger Accounts

- Explain that the posting process for the payroll journal entry is the same as the posting process in previous chapters.