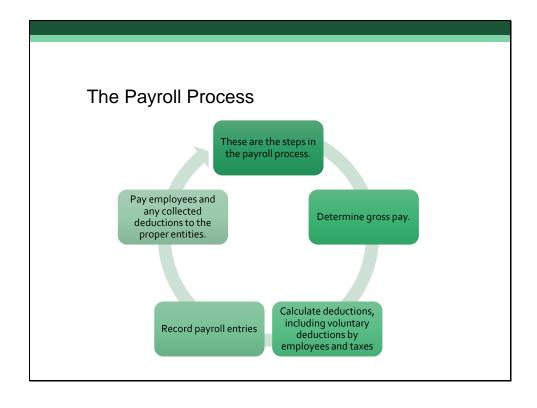
Effective Bookkeeping and Payroll
Chapter 10 - Payroll





Employee's can be paid a monthly or weekly salary but may also be paid hourly wages.

Hourly employees are paid for the number of hours worked during a pay period (i.e. daily, weekly or biweekly). They are paid a set hourly wage but can earn overtime if they work more than 40 hours in a week or in some cases, more than 8 hours in a day.

Salaried employees are paid a yearly salary that is divided into a monthly or weekly amount for purposes of periodic payment.

Hourly wages are calculated in the following way. Note that states mandate a minimum hourly wage that employees must be paid.

- 1) Regular Hours Worked x Regular Rate = Gross Pay (Regular)
- 2) Overtime Hours Worked x Overtime Rate = Gross Pay (Overtime)

The two summed together = Total Gross Pay

Let's look at an example. An employee is paid \$9/hour to be a cashier in a retail outlet. If that employee works 45 hours in a week, their pay is calculated as follows:

Regular Pay 40 x 9 = \$360

+

Overtime Pay $5 \times (9+4.5) = 67.5

Time + 1/2

Gross Pay \$360 + \$67.5 = \$427.50

Salary employees are paid based on an annual salary, thus, they receive a fixed amount every payroll period. They are not typically paid for overtime although they often work more than 40 hours per week.

Example – Annual Salary / Pay Period = Gross Pay per Period

48,000 / 12 = 4,000 Gross Pay per month

.

Some salaried employees are paid a low base salary plus **commission**. These are sales positions where the owner or manager wishes to incent the employees to sell more products. The more they sell, the more their pay is.

Commissions are often calculated as a % of the employees sales for a period. In this example, the employee is paid a base salary of \$24,000/ year plus 5% of their sales. She/he is paid monthly and in January sold \$60,000 of clothing.

Base = \$24,000 / 12 = \$2,000

Commission for $= .05 \times $60,000 = $3,000$

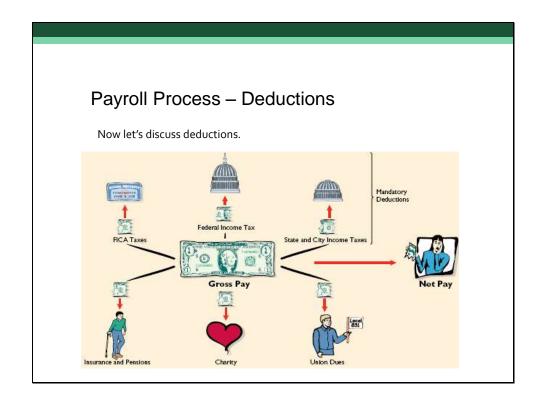
Total Gross Pay = \$2,000 + \$3,000 = \$5,000/month

Some employees are paid according to the number of pieces or units they produce during a pay period.

There is always a requirement that the minimum wage always be paid for hours worked. Therefore, a comparison needs to be made to ensure minimum wage is met.

Hourl	y Rate: 7.	.50	Piece Rate: .10				
Day	Hours	Pieces	Piece Pay	Hourly Pay			
1	8	700	70.00	60.00			
2	8	600	60.00	60.00			
3	8	550	55.00	60.00			
4	8	575	57.50	60.00			
5	5	370	37.00	37.50			
			\$279.50	\$277.50			

After totaling the pay for the period under both Piece and Hourly, we can see the Piece Pay is greater, thus, this is the Gross Pay for the period.



Payroll Process - Taxes

Some payroll deductions are mandatory for all US employees and the employer is only a collection agency. These include **Federal Income Tax, Social Security Tax and Medicare Tax**.



The rate for these taxes is set by the Federal government and does change over time. You must monitor the rate for changes as they occur.

Cut here and gives Form W-4 to your employer. Keep the top part for your recents. Employee's Withholding Allowance Certificate **Whether you are setfleted for claims a certain number of allowances or exemption from setfleteding in the part of your part your first number and the time of the first number of allowances or exemption from setfleteding in the part of your part your first number of allowances or exemption from setfleteding in the part of your part your first number of allowances or exemption from setfleteding in the part of your part your first number of allowances or exemption from setfleteding in the part of your part your first number of allowances or exemption from setfleteding in the part of your part of yo	Employee's Withholding Allowance Certificate Whither you are estilled to claim a perfain number of allowances or examples from sufficiently in Market processor by the following performance and struct or and reads Whither you are estilled to claim a perfain number of allowances or examples from sufficiently in Market to trace by the Bill. Your employer may be required to send a copy of this form to the Bills. Tigo or print your first name and reads estate. Last name Horse address insuriar and struct or and reads Sink Bineric bill legist repeated. Burriet, but withhold as flights considered insuriar and struct or and reads Sink Bineric bill legist repeated. Burriet, but withhold sends, finish the Tigos' loss. Total number of allowances you are claiming (born line H above or from the applicable worksheet on page 2) Sink Bills of the sends of the Bills. Sink Bills of the Bills of	Form W-4 Typewheet of the Tempers Whither you are estitled to claim a pertain number of allowances or examplion from estitleding in subject to reserve by the Risk. Your employer may be required to send a copy of this torn to the Risk. 1 Type or part your first name and neckle ratio. Lest name Home address (number of allowances or same results) 1 Type or part your first name and neckle ratio. Lest name Home address (number of allowances or same results) 1 Type or part your first name and neckle ratio. Lest name Home address (number of allowances or same results) 1 Type and the legith repeated. It have withheld in flights defined them. The per last name of the results of the resul		n determines how muc		ployer withl	holds. It
Employee's Withholding Allowance Certificate Whither you are establed to claim a certain number of allowances or essention from sethilobiling in subject to relate by the BIS. Your employer may be required to send a copy of this form to the BIS. Type or pint your first name and recide initial. Left name 2 Your sectal security number	Employee's Withholding Allowance Certificate Whether you are estitled to claim a pertain number of allowance or examption from estimicating in Majoret to review by the BIS. Your employer may be required to send a copy of this form to the IIIs. 1 Tigo or pint your first name and nickés initial. Last name B Your sectod security number	Employee's Withholding Allowance Certificate Whether you are entitled to claim a pertain number of allowance or examption from entitleding in subject to review by the BIS. Your employer may be required to send a copy of this form to the BIS. Type or pint your first name and recide initial. Leat name 2 Your social security number			ADOTE MAKE MAKE THE STREET OF THE STREET	WESTCAE - 010170	
Steps to part your first name and neckle initial. Last name 1 Type or part your first name and neckle initial. Last name 2 Your sectal security number	Type or print your first name and street or review by the BIS. Your employer may be required to send a copy of this form to the IIIS. 1 Type or print your first name and nickée intitie. Leaf mane. Home address invested or said restor. 2 Your sected excurity number. 8 I timple □ Manisted. The Warhold as highly replicable with the "light" box. 8 I timple □ Manisted in Highly replicable with the timple rate. 8 I total number of allocancies you are clearing floors line Highly home or from the applicable worksheet on page 2) 5 Additional amount, if any, you want withheld from each paycheck. 7 I clear everyption from withholding for 2009, and I certify that I meet both of the following conditions for exemption. • Last your I had a right to a retund of all federal income tax withheld because I expect to have no tax liability and • This your is expect a related of all federal income tax withheld because I expect to have no tax liability. If you need both conditions, write "Exempt" here. 7 Union payley, I dealer that I have examined this outfletter and to the best of my movindge and ballet, it is true, connect, and complete. Employee's signature. From or not valid unless you sign it.) ▶ Date ▶	Type or print your first name and recide initial. Lest name Type or print your first name and recide initial. Lest name Lest name Single Name Married, but withhold accounty number	Form W-4	Employee's Withh	nolding Allowance Certif	ficate	
Suits I mented but legals repeated, or grows in committed about the "Bergia" box # If peer but mere differs from that shown on peer social security ones, thick frees. You must call #400-772-1911 for a registration of the continues of the conti	Site & treend to legit squared, or goose is semestable described by the City or form, state, and 29 code # If year last reries define home that shown as year social security own, classes there. Year must call 1-80-772-1911 for a replacement card. > □ # Total number of allocancies you are claiming (born line H above or from the applicable worksheet on page 2)	Site I terried bit legity agents. It improves an extremelabilities that the "legit" box # If year last review differs from the period of all countries and the country and check free Var must call 1-400-772-1721 for a registerement cant. It is a special security and check free Var must call 1-400-772-1721 for a registerement cant. It is a special security and check from the applicable worksheet on page 2) 5 5 5 5 5 5 5 5 5	Internal Revenue Service	subject to review by the IRS. Your empl	oper may be required to send a copy of this	torm to the IRS.	2000
City or town, state, and 2P code # If you that there differs from that shows a price people from the following conditions for exemptions. # Total number of allowances you are claiming (born line H above or from the applicable worksheet on page 2) # Additional amount, if any, you want withheld from each psycheck # Loair exemption from withholding for 2009, and it certify that I meet both of the following conditions for exemption. # Last year I had a right to a return of all federal income tax withheld because I had no tax liability and # This year I expect a return of all federal income tax withheld because I had no tax liability. # you need both conditions, write "Exempt" here. Under person of payry, I declars that I have exemined the cartificate and to the best of my wholedge and balet. It is true, correct, and compute. Employee's signature From a rest visib signature.	Sink treend, but begin regiment, my good in a member of the the "Taylor box." # If you there, state, and 2P code # If you there, when the third there is no represented above, there is no many the second of the	City or twen, state, and 2P code # 8 year list mere differs when that showing a piece scale security cand, check here. You must call 1-90-772-1213 for a registroment cand. # 5 year list mere differs when that showing a piece scale security cand, check here. You must call 1-90-772-1213 for a registroment cand. # 5 Additional amount, if any, you want withheld born each psycheck # 6 Additional amount, if any, you want withheld born each psycheck # 1 clean exemption from withholding for 2009, and I certify that I meet both of the following conditions for exemption. # Last your I had a right to a refund of all federal income tax withheld because I had no tax liability and # This year I expect a refund of all federal income tax withheld because I expect to have no tax liability. # If you need both conditions, write "Exempt" here. # To Under perathes of payer, I declars that I have examined the curtificate and to the best of my movindge and balls. It is true, connect, and complete. ## Employee/s signature ## Date ** **Date ** **Date ** **Date ** **Business** **Business** **Business** *	Horse address (nun	diaz and street or said mutei	3 Single Medied 1	Seried, but withhold of I	éginer Sángle ratio.
Total number of allowances you are claiming (from the Above or from the applicable worksheet on page 2) 5 Additional amount, if any, you must withheld from each paycheck I claim exemption from withholding for 2009, and i certify that I meet both of the following conditions for exemption. Last year I had a right to a return of all federal income tax withheld because I had no tax liability and This year is expect a return of all federal income tax withheld because I expect to have no tax liability. If you need both conditions, write "Exempt" here. If you need both conditions, write "Exempt" here. Engloyee's signature Form is not visid urises you sign it.) Date Date	5 Total number of allowances you are claiming from the Above or from the applicable worksheet on page 2) 5 6 Additional amount, if any, you want withheld from each paycheck 7 I claim exemption from withhelding for 2009, and I certify that I meet both of the following conditions for exemption. • Last year I had a right to a return of all federal income tax withheld because I had no tax liability and • This year is expect a natural of all federal income but withheld because I expect to have no tax liability. If you need both conditions, write "Exempt" here. • ↑ ↑ Under powrite of pulsy; I declars that I have examined the certificate and to the best of my movings and ballet. It is tree, correct, and complete. Employee's signature. • Date ►	5 Total number of allowances you are claiming from fire H above or from the applicable worksheet on page 2) 5 6 5 6 \$ 7 I claim exemption from withholding for 2009, and 3 certify that I meet both of the following conditions for exemption. Last year I had a right to a return of all federal income tax withheld because I had no tax liability and This year is expect a return of all federal income tax withheld because I had no tax liability and If you meet both conditions, write "Exempt" here. If you meet both conditions, write "Exempt" here. Employee's signature Engloyee's signature Date ► Date ►	City or town, statu.	and ZP code	B year last rurse differs have	y Suf shows on your a	cold security cord,
7 I claim exemption from withholding for 2009, and I certify that I meet both of the following conditions for exemption. • Last year I had a right to a return of all federal income tax withheld because I had no tax liability and • This year I expect a refund of all federal income tax withheld because I expect to have no tax liability and If you need both conditions, write "Exempt" here Union person of pulyr, I declars that I have examined the certificate and to the best of my wholedge and ballet. It is true, correct, and complete. Employee's suppositive From it is not valid unless you sign it.) ▶ Date ▶	7 I claim exemption from withholding for 2009, and I certify that I meet both of the following conditions for exemption. • Last year I had a right to a retund of all federal income tax withheld because I had no tax liability and • This year I expect a retund of all federal income tax withheld because I expect to have no tax liability. If you need both conditions, write "Exempt" here. 7 Union person of pury, I declars that I have examined the certificate and to the best of my knowledge and ballet. It is true, convect, and complete. Employee's signature. Date ►	7 I claim exemption from withholding for 2009, and I certify that I meet both of the following conditions for exemption. • Last year I had a right to a retund of all federal income tax withheld because I had no tax liability and • This year I expect a refund of all federal income tax withheld because I expect to have no tax liability. If you need both conditions, write "Exempt" here. 7 Under perithed of payley; I declars that I have examined the certificate and to the best of my movinage and ballet, it is true, connect, and complete. Employee/'s signature. Date ►			d above or from the applicable workship	eet on page 2)	5
This year I expect a refund of all federal income but withheld because I expect to have no tax subility. If you need both conditions, write "Exempt" here. I you need both conditions, write "Exempt" here. Under position of payary, I declare that I have examined this certificate and to the best of ey knowledge and ballet. It is true, correct, and compute. Employee's signature. From is not valid seless you sign it. Date ▶ Date ▶	This year I expect a refund of all federal income but withheld because I expect to have no tax liability. If you need both conditions, write "Except" here. T Under poreflee of payary, I dealers that I have exemined the cutificate and to the best of my receivings and ballet, it is tree, conscit, and computes. Employee's signature Date ➤ Date ➤	This year I expect a refund of all federal income has withheld because I expect to have no tax liability. If you need both conditions, write "Exempt" here. T Under peratise of parkey, I declare that I have exemined the certificate and to the best of my receivings and ballet. It is true, correct, and computes. Employee's subparties. Date >	7 I claim exemptio	in from withholding for 2009, and I certif	y that I meet both of the following con-	ditions for exemption	Control of the Contro
Under powerse of payley; I declare that I have examined this certificate and to the best of my knowledge and ballet. It in tries, connect, and complete. Employers supports supports pour eight.	United powerfies of payloy, I declare that I have expensed this certificate and to the best of my recovering and ballet, it is true, connect, and complete. Employee's separature From a next valid seless you sign it.) >	Under position of payary; I declare that I have expressed this continuous and to the best of my movinedge and ballet, it is true, connect, and complete. Employee's signature Date >	 This year I exp 	pect a refund of all federal income tax is	withheld because I expect to have no t	ax liability.	
From is not valid unless you sign it.) > Date >	Form is not valid unless you sign it.) > Date >	Form is not valid unless you sign it.) > Date >	If you meet both Under perettes of payury.	conditions, write "Exempt" here	nd to the best of my knowledge and ballet. It is	trail, correct, and cons	plota
			Employee's signature Form is not valid unless	you sign it.) 🕨		Date >	
					only if sending to the IRS.) 9 Diffus code topic	troll 10 Employer ident	ficular number (ERI)

Payroll Process - Deduction Tables

While a rate is provided for mandatory deductions, there are also tables that assist in determining the amount to withhold base on gross income.

- > These tables are published by the federal government for federal income tax.
- > Employees can be penalized by the federal government for not withholding enough tax during the year so it is important to use the correct table.

These forms, along with others, is found at http://www.irs.gov.

Payroll Process - Deductions

Social Security and Medicare Tax

Currently, the tax rate for social security is 6.2% and Medicare is 1.45% for both the employee and the employer.

- Gross Pay x 7.65% = Employee contribution
- Gross Pay x 7.65% = Employer contribution

For example, if an employee earns gross pay in one week of 1,000, the calculation is $1,000 \times .0765 = 76.50$ (both the Employee and Employer pay this amount for a total of 153)

Payroll Process - Deductions

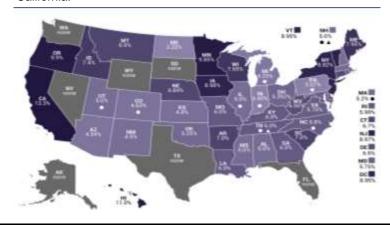
Social security is only paid on income less than \$118,500 in 2015.

Thus, once an employee earns \$118,500 in one year, they only pay 1.45% of gross pay for Medicare. No more for social security. The income cap typically increases each year with inflation.



State taxes

State Income Tax is also a mandatory deduction in those states that it is paid. State tax rates vary widely from 0 in Florida to 13% in California.



Payroll Process - Deductions

There are other mandatory deductions such as:

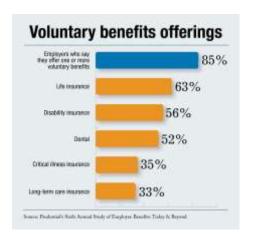
Union Dues which can be mandated if the employee belongs to a union.

Child Support which is mandated by the courts.

Payroll Process - Deductions

Employees may also request **voluntary deductions** be withheld from their pay. These deductions must be authorized in writing.

Common voluntary deductions include health insurance, 401K plans, after tax investments, charity, life insurance, vision, dental, etc....



Payroll Process - Voluntary Deductions

Deductions such as insurance are set amounts each pay period. They are agreed upon and authorized by the employee before the start of each year.

Investments before tax such as 401k plans and other after tax investment plans are often calculated like taxes as a percentage of gross pay.

There is typically no max amount that can be invested after tax, however, you cannot invest more than \$18,000 in a 401k plan each year for those under 50 years old and \$24,000 for those over 50.



Payroll Process – Net Pay

Net Pay is the amount that the employee receives each Pay Period after all required deductions from Gross Pay.

Net Payroll Calculation		
Gross Pay		500.00
Deductions:		
Federal Income Tax	45.26	
Social Security Tax	34.96	
Medicare	16.52	
Company Health Plan	85.00	181.74
Net Pay		\$318.26

		-		

Payroll Process - Recording

Once the payroll has been calculated, it must be entered into the accounting records.

The payroll is recorded in the:

- Employee earnings records
- Company payroll records
- Journal entries for accounting records

Payroll Process - Recording

Each employee will have an **earnings record** which is a cumulative record of all their payroll information.

The format will vary with different systems; however, the following information is normally recorded:

- > Personal Information such as name, address, phone, department, emergency contact and deductions
- > Employee number
- ➤ Salary rate
- > Pay date, Gross Pay, List of Deductions, Net Pay for each pay period and year to date.

Payroll Process – Earnings Record

					_	_	_	_	parter in	_	A TH; 200			
Nime	SOS SMT	H.			SAN	W0 10	-1211					tru.e	381	
Address	1686 CAL	ININ CALMUT # 106			346	406/1964						3-04	6-3-2000	
	GLENDALI	E, CA 9120	N.		Sec	MALE						100	9	
Phone	555-1361				MS	SMOL	i.	125%	540	EFF 121:00		Salar	7.95HQUR	
Cornet	104				Allow	FED-1	CArt	401K	300	EFF 131/55	Ē	Other		
	Tetal		Earnings		A-1-0		_				Nedactions			
Pagernd Ending	Hours. worked	Regular	Overtime	Tetal	Total Earning	125	401	nt	Social Security	Medicare	set	Ireath Ire	501	Total
YTO	1606.50	14945-30	912.26	15858.26	15856.26			1660.00	960.21	229.94	895.75	765.00	142.72	4871.62
14-Oct	\$1.50	436.00	15.74	651.74	16510.00			96.00	40.41	9.45	25.72	40.00	5.87	198.54
28-Oct	82.52	936,00	35.05	866.00	17179.00			89.00	41,30	9.06	26.3	40.00	5.99	192.25
31-Oct	Bonus	317.84		217.84	17490.69			16.00	19.71	4.61	4.85	0.00	2.96	50.00
11-Nov	83.10	836-00	36.97	672.97	10166.96			69.00	41.72	6.76	26.50	40.00	6,06	192.84
25-Nov	\$0.50	436.00	1.96	641.56	18808.82		-	96.00	39.90	9.31	25.22	40.00	5.78	186.11
30 Nov	Bonue.	306,10		306.10	19134.92			17,000	29.22	4.73	7.80	0.00	2.93	52.0
				0.00			_				_		0.00	0.00
	Q1D	247.94	09.72	3270.66				203.00	203.1617	47.51286	117.80	160.00	172.21	800.86
	YTB.	18135.94	1000.98	19134.85				2163.00	1186,372	277.4577	1013.57	920.00	214.94	\$702.65

Payroll Process - Payroll Record

The Company Payroll Record lists much of the same information as the Employee Payment Record; however, all the employees are listed in this record by pay period.

Payroll Process – Payroll Records

Date	Employee ID	Name	Hourly Wage	Hours	Gross Pay	Federal Allow.	State Tex	Income Tax	Security 6.2%	Medicare 1.45%	Total Tax Withheld	Insurance Deduction	Net Pay
1/2/2004	56	Kane, John	\$13.25	36.00	\$477.00	. 0	\$34.33	\$57.10	\$29.57	\$6.92	\$127.92	\$26.00	\$323.08
1/2/2004	57	Kane, Lon	\$25.00	40.00	\$1,000.00	2	\$74.86	\$146.54	\$62.00	\$14.50	\$297.90	\$35.00	\$867.10
1/2/2004	58	Kastner, Steven H.	\$31.00	39.00	\$1,209.00	1	\$96.49	\$213.70	\$74.96	\$17.53	\$402.68	\$35.00	\$771.32
1/2/2004	59	Katyal, Sandeep	\$13.00	20.00	\$260.00	0	\$17.73	\$24.55	\$16.12	\$3.77	\$62.17	\$26.00	\$171.83
1/2/2004	60	Kawai, Masato	\$7.50	30.00	\$225.00	- 1	\$13.03	\$10.36	\$13.95	\$3.26	\$40.60	\$26.00	\$158.40
1/2/2004	61	Keamey, Bonnie	\$8.22	36.00	\$295.92	0	\$20.48	\$29.94	\$18.35	\$4.29	\$73.05	\$26.00	\$196.87
1/9/2004	56	Kane, John	\$13.25	40.00	\$530.00	0	\$38.39	\$65.05	\$32.86	\$7.69	\$143.98	\$26.00	\$360.02
1/9/2004	57	Kane, Loni	\$25.00	33.00	\$825.00	2	\$59.11	\$102.79	\$51.15	\$11.96	\$225.01	\$35.00	\$564.99
1/9/2004	58	Kastner, Steven H.	\$31.00	28.00	\$968.00	- 1	\$65.80	\$128.45	\$53.82	\$12.59	\$260.65	\$35.00	\$572.35
1/9/2004	59	Katyal, Sandeep	\$13.00	39.00	\$507.00	0	\$36.63	\$61.60	\$31.43	\$7.35	\$137.01	\$26.00	\$343.99
1/9/2004	60	Kawai, Masato	\$7.50	30.00	\$225.00	- 1	\$13.03	\$10.36	\$13.95	\$3.26	\$40.60	\$26.00	\$158.40
1/9/2004	61	Keamey, Bonnie	\$8.22	36.00	\$295.92	. 0	\$20.48	\$29.94	\$18.35	\$4.29	\$73.05	\$26.00	\$196.87
1/16/2004	56	Kane, John	\$13.25	33.00	\$437.25	0	\$31.29	\$51.14	\$27.11	\$6.34	\$115.88	\$26.00	\$295.37
1/16/2004	57	Kane, Lon	\$25.00	40.00	\$1,000.00	2	\$74.86	\$146.54	\$62.00	\$14.50	\$297.90	\$35.00	\$667.10

Payroll Process - Recording

- > Journal entries are made from the Company Payroll Record.
- > The Company Payroll Record columns are totaled at the end of each pay period.
- > Those totals are entered into the Journal as one compound journal entry.

Payroll Process – Recording Net Payroll

Recording Employee Pay and Deductions

	ABC Legal Services General Journal			Page GJ1
Date 2015	Description	Post Ref.	Debit	Credit
Apr 18	Wage Expense		5,365.27	
	Income Tax Payable (Federal)			874.36
	Income Tax Payable (State)			612.25
	Social Security Tax Payable			346.58
	Medicare Tax Payable			265.18
	Union Dues Payable			645.00
	Health Plan Payable			746.59
	Wages Payable			1,875.31
	To record weekly payroll.			

Payroll Process – Employer Expenses

Employers must pay several additional taxes and expenses that are considered part of the employee's benefits to which the employee does not contribute.

These include:

- > Worker's compensation insurance Employee is paid a % of their regular pay if they are injured on the job. State mandate!
- > FUTA or Federal Unemployment Insurance If an employee is laid off, they can collect unemployment insurance to help cover the cost of their living expenses.
- > Health Insurance Often an employer will pay a significant amount of an employee's health insurance.
- > Employer portion of Social Security and Medicaid.

Payroll Process – Recording

Recording Employer Contributions

ABC Legal Services General Journal							
Date 2015	Description	Post Ref.	Debit	Credit			
Apr 18	FUTA Expense		162.00				
	Social Security Expense		346.58				
	Health Plan Expense		863.14				
	Worker Compensation Expense		379.00				
	FUTA Payable			162.00			
	Social Security Payable			346.58			
	Health Plan Payable			863.14			
	Worker Compensation Payable			379.00			
	Record weekly employer contributions.						

Payroll Process - Making Payments

The next step is to record payments into the *Cash Payments Journal* with each employee listed in the Memo column, the total payroll amount in the General Ledger column and the individual paycheck amounts, by employee, in the Cash column.

Remittances to the government are normally listed individually and only one check is written for the total due. The individual payment amounts are listed in the General Ledger column with the total payment in the Cash column.

Remittances for other deductions are summed and listed separately with amounts in the General Ledger column and the Cash column.

CASH PAYMENTS JOURNAL							Page CPJ1			
Date 20	Account Debit	Memo	Pst. Rf.	Accts Pay. Dr	Purch Disc. Dr	Compt Purch Dr	Soft Purch Dr	Gen. Led. Dr	Cash Cr	Ck No

Payroll Process - Vacation & Sick Pay

Some companies will provide pay for other occasions that occur during the year.

Vacation Pay – The company may have a process where employee may earn vacation hours. When the employee uses these hours to take a vacation, the company will pay the employees from the earned vacation hours that have accumulated.

Sick Pay - The company may have a process where employee may earn sick hours. When the employee uses these hours due to an illness, the company will pay the employees from the earned sick hours that have accumulated.

Payroll Process - Accruals

Certain accruals are recorded each pay period for vacation pay and sick pay. For every hour or week worked, an employee will earn paid time off. The accrual is recorded each time payroll is processed with the following entry:

Dr: Vacation and Sick Pay Expense \$xxx.xx

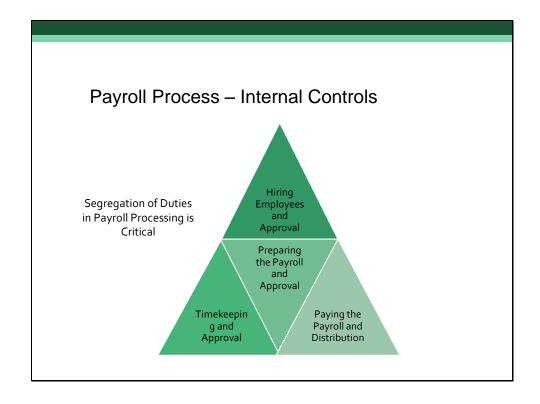
Cr: Vacation Payable \$xxx.xx

Cr: Sick Pay Payable \$xxx.xx

When employee's use their vacation and sick pay:

Dr: Vacation Payable \$xxx.xx
Dr: Sick Pay Payable \$xxx.xx
Cr: Cash \$xxx.xx

Payroll Process — Internal Controls From an internal Control standpoint, payroll is a VERY HIGH RISK process. Employees have been paid in excess of earned wages in the following ways: Overstating hours worked Unauthorized pay rates Adding fictitious employees Continuing to pay terminated employees Distributing duplicate payroll checks



Questions and Answers

Review Questions:

- 1. The following is true about Social Security taxes:
 - A. Both the employee and employer pay 7.65% of employee salary
 - B. Social Security is capped at \$98,000 income
 - C. Medicare tax has a cap of \$108,500 income
 - D. All of the above
- 2. Payroll is recorded in the:
 - A. Employee earnings records
 - B. The company payroll records
 - C. Journal entries for accounting records
 - D. All of the above
- 3. True or False: Overtime pay is calculated as overtime hours worked x the overtime rate which is typically time + 1/2.
- 4. True or False: Commissions are calculated as a percentage of base salary.
- 5. True or False: Voluntary deductions include charitable donations, pretax savings and medical insurance.

Answer Key:

1. A

There is no cap on Medicare and the Social Security cap is \$108,500.

2. D

Payroll is recorded in the employee earnings records, the company payroll records, and the journal entries for accounting records.

3. A

True. Overtime pay is calculated as overtime hours worked x the overtime rate which is typically time + 1/2.

4. B

False. It is calculated as a percentage of sales.

5. A

True. Voluntary deductions include charitable donations, pretax savings and medical insurance.