

Chapter 12:Preparing Payroll Records: Chapter Overview

Chapter Overview

Preparing Payroll Records: Chapter Objectives

Preparing Payroll Records: Accounting in the Real World: The Walt Disney Company

Preparing Payroll Records: Key Terms

Preparing Payroll Records: Chapter Objectives

Learning Objectives

After studying Chapter 12, in addition to defining key terms, you will be able to:

- LO1 Explain how employees are paid.
- LO2 Calculate hourly employee earnings.
- LO3 Demonstrate the process for determining federal income tax withholdings.
- LO4 Demonstrate the process for calculating social security and Medicare taxes.
- LO5 Explain the benefit of funding medical and retirement plans with pretax contributions.
- LO6 Prepare a payroll register.
- LO7 Prepare employee earnings records.
- LO8 Justify the use of a payroll checking account.
- LO9 Prepare employee payroll checks.

Preparing Payroll Records: Accounting in the Real World: The Walt Disney Company

Every child dreams of going to Disneyland®. Whether you are 4 or 40, your first visit to Disneyland is a magical moment. From riding an attraction, to watching a show, to having your picture taken in the arms of a famous Disney character, the Disney experience is certain to spark your imagination.

Could you be a cast member for Disney? No, you don't have to be a dancer, actor, or singer, although Disney needs people with these skills. All you need is a passion to share the magic of Disney. The variety of talents required to operate Disneyland is truly amazing.

1. Do you like animals? Stable attendants help guests interact with the animals, operate horse-drawn vehicles, and care for animals at the guest kennels.

2. Do you enjoy photography? Photo-imaging cast members take guest portraits framed by famous Disney landmarks and join families for the day to capture their Disney experience.
3. Are costumes your thing? Costume and cosmetology cast members help entertainers with costumes, wigs, and makeup.

These are just a few of the many positions required to deliver the Disney experience. Are you ready to explore joining the team? The Disneyland CareerStart Program allows high school seniors and recent graduates to work as cast members. The program enables cast members to attend seminars featuring Disney executives and enroll in hospitality management courses offered for college credit.

Critical Thinking



1. Select one of the cast member positions available with the Disneyland CareerStart Program. What expense accounts, other than payroll, might Disney need to account for activities related to this position? For example, attractions cast members wear costumes provided by Disney. Therefore, Disney would require costumes and laundry expense accounts.
2. Suppose a cast member begins her day by attending a two-hour seminar featuring a Disney sales manager. Leaving the off-site training facility, she travels 45 minutes to the park and spends an hour in makeup. Waiting an hour for a storm to pass, she finally dances alongside a float and entertains guests during the 30-minute parade. After spending 15 minutes to remove makeup, she returns to the training facility. There, she spends three hours training a new cast member to perform her character.
 - a. Summarize the cast member's hours by activity.
 - b. How would this information be useful to a manager?

Preparing Payroll Records: Key Terms

- | | | |
|------------------|-----------------|-------------------------|
| • wage | • pay period | • payroll taxes |
| • salary | • payroll | • withholding allowance |
| • commission | • payroll clerk | • payroll deduction |
| • total earnings | • time clock | • social security tax |

- Medicare tax
- accumulated earnings
- tax base
- qualified retirement plan
- 401(k)
-
- individual retirement account (IRA)
- Roth individual retirement account (Roth IRA)
- payroll register
- net pay
- employee earnings record
- voucher check
- direct deposit

Chapter 12: Preparing Payroll Records: Lesson 12-1: Calculating Employee Earnings

Lesson 12-1: Calculating Employee Earnings

Paying Employees LO1

Calculating Employee Hours Worked

Time Clock Systems

Calculating Hourly Employee Total Earnings LO2

End of Lesson Review

LO1 Explain how employees are paid.

LO2 Calculate hourly employee earnings.

Paying Employees LO1

The amount paid to an employee for every hour worked is called a **wage**. Under the federal wage and hour laws, hourly employees must be paid for every hour they are on the job. The wage and hour laws allow employers to exempt owners and managers from this hourly payment rule. Those employees are often paid a fixed amount regardless of the number of hours worked. A fixed annual sum of money divided among equal pay periods is called a **salary**. To encourage higher sales, many companies pay their sales employees based on the sales they achieve. A **commission** is a method of paying an employee based on the amount of sales the employee generates. Commissions are normally calculated as a percent of an employee's sales. The total amount paid by a business for an employee's work, earned by a wage, salary, or commission, is called **total earnings**. Total earnings are sometimes referred to as gross pay, gross wages, or gross earnings.

ThreeGreen employs several people to work in the business. These employees record the time they

work for ThreeGreen each day. Periodically, ThreeGreen pays its employees for the number of hours each employee has worked. A **pay period** is the number of days or weeks of work covered by an employee's paycheck. A business may decide to pay its employees every week (weekly), every two weeks (biweekly), twice a month (semimonthly), or once a month (monthly). ThreeGreen uses a semimonthly pay period. Employees are paid on the 15th and last day of each month.

The total amount earned by all employees for a pay period is called a **payroll**. But the total payroll is not the amount actually paid to employees. The payroll amount paid to employees is reduced by state and federal taxes and other deductions such as health insurance. Special payroll records support the recording of payroll transactions in a journal. The business also uses these records to inform employees of their annual earnings and to prepare payroll reports for federal, state, and local governments. The accounting staff position that compiles and computes payroll data and then prepares, journalizes, and posts payroll transactions is called a **payroll clerk**.

Calculating Employee Hours Worked

A payroll system must keep an accurate record of the time each hourly employee has worked. Most businesses require their employees to make a record of their time on the job. A **time clock** is a device used to record the dates and times of every employee's arrivals and departures.

For more than a century, the most common type of time clock required each employee to insert a time card into the device. The time clock stamped or punched the date and time on the next available line of the card. A wall rack full of time cards was a common sight and can still be seen in many businesses today.

EMPLOYEE NO. <u>2</u>								
NAME <u>John P. Butler</u>								
PAY PERIOD ENDED <u>December 15, 20--</u>								
Day	MORNING		AFTERNOON		EVENING		HOURS	
	IN	OUT	IN	OUT	IN	OUT	REG	OT
Mon 01	7 ⁵⁹	12 ⁰²	12 ⁵⁹	4 ⁵³			8	
Tue 02	7 ⁵³	12 ⁰⁴	1 ⁰¹	5 ⁰⁵			8	
Wed 03	8 ⁰⁵	12 ⁰³	12 ⁵⁶	4 ⁵²	6 ⁰²	8 ³³	8	2.5
Fri 12	10 ⁰⁴	1 ⁰⁶	2 ⁰²	5 ⁰²	6 ⁰¹	8 ⁰⁹	8	
Sat 13	9 ³²	1 ³⁵						4
Mon 15	7 ⁵⁷	12 ⁰²	12 ⁵⁸	4 ⁵²			8	
PERIOD TOTALS							88	6.5

1
 Calculate regular hours

2
 Calculate overtime hours

3
 Calculate total hours

ThreeGreen uses a traditional time card system. Employees earn overtime pay for working more than eight hours in any day or more than 40 hours in a week. When calculating hours worked, a business

can elect how to round arrival and departure times. ThreeGreen rounds work hours to the nearest quarter hour.

Calculating Employee Hours Worked

1 Calculate the number of regular hours for each day. Enter the amounts in the Hours/Reg column. The hours worked on December 3, the third line of the time card, are calculated using the arrival and departure times imprinted on the time card.

The hours worked in the morning, afternoon, and evening are calculated separately. The morning departure time of 12:03 is rounded to the nearest quarter hour, 12:00. The 8:00 arrival time (rounded from 8:05), subtracted from the 12:00 departure time, equals four hours. Record the total regular hours worked, 8, on the time card in the Hours/Reg column.

Morning:

Time card	12:03		8:05		
Nearest quarter hour	12:00	–	8:00	=	4

Afternoon:

Time card	4:52		12:56		
Nearest quarter hour	5:00	–	1:00	=	4
Total regular hours worked on December 3					<u>8</u>

2 Calculate the number of overtime hours for each day. Overtime hours for December 3 are calculated using the same procedure as for regular hours. Record Mr. Butler's overtime hours worked, 2.5, in the Hours/OT column.

	Departure	–	Arrival	=	Hours
	Time		Time		Worked
Time card	8:33		6:02		
Nearest quarter hour	8:30	–	6:00	=	2.5

3 Add Mr. Butler's hours worked in the Hours/Reg and Hours/OT columns and enter the totals, 88 regular hours and 6.5 overtime hours, in the spaces provided at the bottom of the time card.

Time Clock Systems

Computer technology offers new methods for recording employee time. Employees can swipe a name badge, key in a PIN, or press a finger on a biometric pad to record their arrival or departure. Today's time clocks feed data directly into a company's computer system. At the end of every pay period, the system can print a report showing the daily regular and overtime hours worked by each employee. The report to the left shows how Mr. Butler's hours for the pay period ending December 15 would be reported. The data could also be used to prepare other reports. For example, one report could show the exact times employees arrived and departed. Another report could show a list of employees who arrived late for work.



Hour Summary					
Payroll Period:	12/1/20-- to 12/15/20--				
Employee No.:	2				
Employee Name:	John P. Butler				
Date	Day	Regular	Overtime	Other	Total
12/1/20--	Mon	8.0			8.0
12/2/20--	Tue	8.0			8.0
12/3/20--	Wed	8.0	2.5		10.5
12/4/20--	Thu	8.0			8.0
12/5/20--	Fri	8.0			8.0
12/8/20--	Mon	8.0			8.0
12/9/20--	Tue	8.0			8.0
12/10/20--	Wed	8.0			8.0
12/11/20--	Thu	8.0			8.0
12/12/20--	Fri	8.0			8.0
12/13/20--	Sat		4.0		4.0
12/15/20--	Mon	8.0			8.0
Totals		88.0	6.5	—	94.5

Employee No.:	4				
Employee Name:	Cary B. Wells				
Date	Day	Regular	Overtime	Other	Total
12/2/20--	Tue	4.0			4.0
12/3/20--	Wed	8.0			8.0
12/4/20--	Thu	8.0	2.5		10.5
12/5/20--	Fri	6.0			6.0

Larger companies can afford more expensive systems to record employee arrival and departure times. A popular system requires employees to scan a personal identification card through a card scanner. At the end of the pay period, the system prints a report similar to the time card.

Calculating Hourly Employee Total Earnings LO2

Hourly employee earnings are calculated using time card data. Hourly wage rates are obtained from personnel records.

The Fair Labor Standards Act, often referred to as the federal wage and hour laws, set the minimum wage and rules for the payment of overtime. The law requires most businesses involved in interstate commerce to pay employees at least 1½ times their normal hourly rate for hours worked in excess of 40 hours per week. ThreeGreen complies with the Fair Labor Standards Act. But the company goes even further and pays its employees overtime when they work more than eight hours in a day.

Mr. Butler earned \$1,466.25 for his work during the pay period ending December 15. However, taxes and other deductions are taken out of total earnings to determine the actual amount ThreeGreen will pay Mr. Butler.

<p>Calculating an Hourly Employee's Total Earnings</p> <p>1 Multiply the regular hours, 88, by the regular rate, \$15.00, to calculate regular earnings, \$1,320.00.</p> <p>2 Multiply the regular rate, \$15.00, by 1½ to calculate the overtime rate, \$22.50.</p> <p>3 Multiply the overtime hours, 6.5, by the overtime rate, \$22.50, to calculate the overtime earnings, \$146.25.</p> <p>4 Add the regular earnings, \$1,320.00, and the overtime earnings, \$146.25, to calculate the total earnings, \$1,466.25.</p>	<p>Calculate regular earnings</p> <p>1</p>	<p>Regular Hours</p> <p>88</p>	×	<p>Regular Rate</p> <p>\$15.00</p>	=	<p>Regular Earnings</p> <p>\$1,320.00</p>
	<p>Calculate the overtime rate</p> <p>2</p>	<p>Regular Rate</p> <p>\$15.00</p>	×	<p>1½</p> <p>1½</p>	=	<p>Overtime Rate</p> <p>\$22.50</p>
	<p>Calculate overtime earnings</p> <p>3</p>	<p>Overtime Hours</p> <p>6.5</p>	×	<p>Overtime Rate</p> <p>\$22.50</p>	=	<p>Overtime Earnings</p> <p>\$146.25</p>
	<p>Calculate total earnings</p> <p>4</p>	<p>Regular Earnings</p> <p>\$1,320.00</p>	+	<p>Overtime Earnings</p> <p>\$146.25</p>	=	<p>Total Earnings</p> <p>\$1,466.25</p>

End of Lesson Review

LO1 Explain how employees are paid.

LO2 Calculate hourly employee earnings.

Terms Review

- wage
- salary
- commission
- total earnings
- pay period
- payroll
- payroll clerk
- time clock

Audit Your Understanding

1. What is a payroll?
2. Identify three methods used by modern time clock systems to record employee arrival and departure times.
3. Describe the overtime rules of the Fair Labor Standards Act.
4. How does ThreeGreen calculate overtime earnings?

Work Together 12-1

Calculating hourly employee total earnings

The October 15 time card for Alice R. Webster and time card data for other employees are provided in the Working Papers. Your instructor will guide you through the following example. Round hours to the nearest quarter hour.

1. Calculate the regular, overtime, and total hours worked by Ms. Webster. Any hours over eight hours per day or 40 hours per week are considered overtime. Each work week begins on Monday. Record the total hours on the time card.
2. Enter the regular and overtime hours for Ms. Webster in the schedule. For each employee, calculate the amount of regular, overtime, and total earnings. Overtime hours are paid at 1½ times the regular rate. Round dollar amounts to the nearest cent.

On Your Own 12-1

Calculating hourly employee total earnings

The June 30 time card for Mary Carol Prestwood and time card data for other employees are

provided in the Working Papers. Work this problem independently. Round hours to the nearest quarter hour.

1. Calculate the regular, overtime, and total hours worked by Ms. Prestwood. Any hours over eight hours per day or 40 hours per week are considered overtime. Each work week begins on Monday. Record the total hours on the time card.
2. Enter the regular and overtime hours for Ms. Prestwood in the schedule. For each employee, calculate the amount of regular, overtime, and total earnings. Overtime hours are paid at 1½ times the regular rate. Round dollar amounts to the nearest cent.

Chapter 12:Preparing Payroll Records: Ethics in Action: Is It Discrimination or Poor Judgment?

Ethics in Action: Is It Discrimination or Poor Judgment?

Instructions

Your group at CyberMarket has an opening for a research analyst. You are on the team to pick candidates to be interviewed. Your company has a code of conduct that bars discrimination on the basis of “race, color, religion, national origin, gender, sexual orientation, age, disability, or veteran status.” In a recent meeting, team members gave the following reasons for wanting to drop two candidates.

Candidate A: “She's 52 years old. I wasn't even born when she graduated from college. How can she possibly know anything about our business?”

Candidate B: “The ad said two to five years of experience. But we really need someone with more than two years of experience.”

Instructions

Use the ethical model to help evaluate hiring decisions based on each of the statements above. Use online sources, as appropriate, to determine whether any actions are illegal.

Chapter 12:Preparing Payroll Records: Global Awareness: European Union

Global Awareness: European Union

Critical Thinking

The European Union (EU) is an association of 27 European countries. It was formed to enhance political, economic, and social cooperation. The EU ensures the free movement of people, goods, services, and capital within and between the 27 countries. This means that no passport is required to move from one EU country to another. It also means that goods can move between the EU countries without additional taxes or tariffs. This is known as the “single market.”

The single market is possible because there is one set of laws which apply in all member states. These laws are created by several organizations. The major law-making organization is the Council of the European Union.

The standard unit of money for the EU is the euro. Currently, however, only 17 EU countries use the euro. In those countries, it is no longer necessary to worry about exchange rates or calculating the true price of a product.

The EU hopes to grow by adding even more countries to the union.

Critical Thinking



1. Name the 10 EU countries that do not use the euro as their monetary unit.

Use the Internet to research the EU and International Financial Reporting Standards (IFRS). (IFRS were discussed in the Global Awareness feature in Chapter 10.) Summarize the EU's use or nonuse of IFRS.

Chapter 12: Preparing Payroll Records: Why Accounting?: Cost of Legislation

Why Accounting?: Cost of Legislation

Critical Thinking

The U.S. Senate and the House of Representatives, which constitute the Congress of the United States, are responsible for writing the laws that govern the nation. Those laws generally have a cost. Many Americans may not realize how Congress determines the cost of legislation it is debating.

The Congressional Budget Office (CBO) is a government agency whose mandate is “to provide Congress with objective, nonpartisan, and timely analyses to aid in economic and budgetary

decisions....” Congress established the CBO in 1974. The Speaker of the House of Representatives and the president pro tempore of the Senate act jointly to appoint the CBO's director. The director serves a four-year term, but can be reappointed for an unlimited number of terms. Currently, about 250 people are employed by the CBO to provide the reports required by law and requested by Congress.



The CBO has a very important role in the legislative process. Clearly, Congress must have accurate estimates for the cost of proposed legislation if it is to make well-informed decisions.

Critical Thinking



Visit the Congressional Budget Office website (www.cbo.gov). Find the estimated cost for one piece of proposed or recently passed legislation. Write a one-paragraph report summarizing the legislation and stating the estimated cost.

Chapter 12: Preparing Payroll Records: Lesson 12-2: Determining Payroll Tax Withholding

Lesson 12-2: Determining Payroll Tax Withholding

Payroll Taxes LO3

Employee's Withholding Allowance Certificate

Employee's Income Tax Withholding—Single Persons

Employee's Income Tax Withholding—Married Persons

Employee Social Security and Medicare Tax LO4

Voluntary Deductions from Earnings LO5

End of Lesson Review

LO3 Demonstrate the process for determining federal income tax withholdings.

LO4 Demonstrate the process for calculating social security and Medicare taxes.

LO5 Explain the benefit of funding medical and retirement plans with pretax contributions.

Payroll Taxes LO3

Federal income tax is withheld from employee earnings in all 50 states. Employers in many states also are required to withhold state, city, or county income taxes from employee earnings. The amounts withheld ensure that the employee has paid an amount about equal to the employee's annual tax liability. Income taxes withheld must be sent periodically to the respective government agencies.

Taxes based on the payroll of a business are called **payroll taxes**. All payroll taxes are based on employee earnings. Therefore, accurate and detailed payroll records must be maintained. Errors in payroll records could cause incorrect payroll tax payments. Government agencies may assess penalties for failure to pay correct payroll taxes when they are due. Payroll taxes withheld represent liabilities for the employer until payments are made to the respective government tax agencies.

Employee's
Withholding
Allowance
Certificate

A deduction
from total
earnings for
each person
legally
supported by a

taxpayer, including the employee, is called a **withholding allowance**. The information used to determine how much income tax to withhold is found on Form W-4, Employee's Withholding Allowance Certificate. Employers are required to have a current Form W-4 on file for every employee. The amount of income tax withheld is based on an employee's marital status and number of allowances. A married employee will have less income tax withheld than a single employee with the same earnings. The larger the number of allowances claimed, the smaller the amount of income tax withheld.

The image shows Form W-4, Employee's Withholding Allowance Certificate, with several fields highlighted by numbered callouts:

- 1 Name and Address:** Points to the first name and middle initial (John P.) and the home address (1014 Bosler Ave., Carlisle, PA 17013).
- 2 Social Security Number:** Points to the social security number (994-81-5823).
- 3 Marital Status:** Points to the marital status section, where "Married" is selected.
- 4 Withholding Allowances:** Points to the number of allowances claimed (5).
- 5 Signature and Date:** Points to the employee's signature (John P. Butler) and the date (Feb. 15, 20--).

The form includes the following text:

Form W-4
Department of the Treasury
Internal Revenue Service

Employee's Withholding Allowance Certificate
OMB No. 1545-0074
20--

Whether you are entitled to claim a certain number of allowances or exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of this form to the IRS.

1 Type or print your first name and middle initial. Last name
John P. Butler

2 Your social security number
994-81-5823

3 ☐ Single ☒ Married ☐ Married, but without at higher single rate.
Note, if married, but legally separated, or spouse is a nonresident alien, check the "Single" box.

4 If your last name differs from that shown on your social security card, check here. You must call 1-800-772-1213 for a replacement card. ☐

5 Total number of allowances you are claiming (from line H above or from the applicable worksheet on page 2)
6 Additional amount, if any, you want withheld from each paycheck
7 I claim exemption from withholding for 20--, and I certify that I meet both of the following conditions for exemption.
• Last year 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 meet both conditions, write "Exempt" here.

Under penalties of perjury, I declare that I have examined this certificate and to the best of my knowledge and belief, it is true, correct, and complete.

Employee's signature (Form is not valid unless you sign it.) John P. Butler Date Feb. 15, 20--

8 Employer's name and address (Employer: Complete lines 9 and 10 only if sending to the IRS.) 9 Office code (optional) 10 Employer identification number (EIN)

For Privacy Act and Paperwork Reduction Act Notice, see page 2. Cat. No. 10220Q Form W-4 (20--)

Most employees are required to have federal income taxes withheld from their wages. An exemption from withholding is available for certain low-income and part-time employees. The employee must meet the requirements listed in item 7 of the Form W-4. However, individuals cannot claim exemption from withholding if (1) their income exceeds \$950.00 and includes more than \$300.00 of unearned income such as interest and dividends and (2) another person can claim them as a dependent on their tax return. These requirements are subject to change.

Any amount withheld from an employee's gross earnings is called a [payroll deduction](#) . Federal income tax is just one of many amounts that are withheld. Other taxes described in this chapter are withheld from all employees. Some employees elect to have retirement plan contributions, health care premiums, and charitable contributions withheld.

Preparing an Employee's Withholding Allowance Certificate

- 1 Write the employee's name and address.
- 2 Write the employee's social security number.
- 3 Check the appropriate marital status block. Mr. Butler checked the married box for item 3.
- 4 Write the total number of withholding allowances claimed. Mr. Butler claimed four withholding allowances, one each for himself, his wife, and their two children.
- 5 The employee must sign and date the form.



Each employee must have a social security number. Current law ensures that most infants who are at least one year old by the end of a tax year will have a social security number. Therefore, most employees will have received their social security number as a child. Employees without social security numbers can apply for a number at the nearest social security office.

Employee's Income Tax Withholding—Single Persons

SINGLE Persons—SEMIMONTHLY Payroll Period

(For Wages Paid Through December 20--)												
And the wages are –		And the number of withholding allowances claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10
		The amount of income tax to be withheld is—										
\$0	\$260	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
260	270	1	0	0	0	0	0	0	0	0	0	0
270	280	2	0	0	0	0	0	0	0	0	0	0
280	290	3	0	0	0	0	0	0	0	0	0	0
290	300	4	0	0	0	0	0	0	0	0	0	0
900	920	90	67	44	21	5	0	0	0	0	0	0
920	940	93	70	47	24	7	0	0	0	0	0	0
940	960	96	73	50	27	9	0	0	0	0	0	0
960	980	99	76	53	30	11	0	0	0	0	0	0
980	1000	102	79	56	33	13	0	0	0	0	0	0
1000	1020	105	82	59	36	15	0	0	0	0	0	0
1020	1040	108	85	62	39	17	2	0	0	0	0	0
1040	1060	111	88	65	42	19	4	0	0	0	0	0
1060	1080	114	91	68	45	22	6	0	0	0	0	0
1080	1100	117	94	71	48	25	8	0	0	0	0	0
1100	1120	120	97	74	51	28	10	0	0	0	0	0
1120	1140	123	100	77	54	31	12	0	0	0	0	0
1140	1160	126	103	80	57	34	14	0	0	0	0	0
1160	1180	129	106	83	60	37	16	1	0	0	0	0
1180	1200	132	109	86	63	40	18	3	0	0	0	0
1200	1220	135	112	89	66	43	21	5	0	0	0	0
1220	1240	138	115	92	69	46	24	7	0	0	0	0
1240	1260	141	118	95	72	49	27	9	0	0	0	0
1260	1280	144	121	98	75	52	30	11	0	0	0	0
1280	1300	147	124	101	78	55	33	13	0	0	0	0
1300	1320	150	127	104	81	58	36	15	0	0	0	0
1320	1340	153	130	107	84	61	39	17	1	0	0	0
1340	1360	156	133	110	87	64	42	19	3	0	0	0

1360	1380	159	136	113	90	67	45	22	5	0	0	0
1380	1400	162	139	116	93	70	48	25	7	0	0	0
1400	1420	165	142	119	96	73	51	28	9	0	0	0
1420	1440	168	145	122	99	76	54	31	11	0	0	0
1440	1460	171	148	125	102	79	57	34	13	0	0	0
1460	1480	174	151	128	105	82	60	37	15	0	0	0
1480	1500	177	154	131	108	85	63	40	17	2	0	0
1500	1520	180	157	134	111	88	66	43	20	4	0	0
1520	1540	185	160	137	114	91	69	46	23	6	0	0
1540	1560	190	163	140	117	94	72	49	26	8	0	0
1560	1580	195	166	143	120	97	75	52	29	10	0	0
1580	1600	200	169	146	123	100	78	55	32	12	0	0
1600	1620	205	172	149	126	103	81	58	35	14	0	0
1620	1640	210	175	152	129	106	84	61	38	16	1	0
1640	1660	215	178	155	132	109	87	64	41	18	3	0
1660	1680	220	182	158	135	112	90	67	44	21	5	0
1680	1700	225	187	161	138	115	93	70	47	24	7	0

Federal income tax laws are written and passed by Congress. The Internal Revenue Service (IRS), an agency of the U.S. Department of the Treasury, administers the tax laws. The amount of federal income tax to withhold from each employee's total earnings is found in withholding tables. These withholding tables are revised each year and are available from the IRS in Publication 15 (Circular E), Employer's Tax Guide. The withholding tables shown in this chapter are those available when this textbook was prepared.

There are tables for various payroll periods—monthly, semimonthly, biweekly, weekly, and daily. Single persons are taxed at different levels of income than married persons. Single persons and married persons tables are available for each pay period. ThreeGreen's pay period is semimonthly, so ThreeGreen uses the semimonthly withholding tables.



The federal income tax withholding tables on pages 353–354 contain a column for 0 dependents. How can an employee have 0 dependents if the employee is

a dependent? Some employees claim fewer dependents than they are allowed—even as low as zero—to increase the amount of tax withheld. An employee who has other taxable income, such as interest and dividends, can use payroll withholding to pay the additional income taxes owed on this income. As a result, the employee avoids having a large income tax payment when the tax return is filed.

Employee's Income Tax Withholding—Married Persons

Select the appropriate table 1

MARRIED Persons—SEMIMONTHLY Payroll Period
(For Wages Paid Through December 20--)

And the wages are—		And the number of withholding allowances claimed is—											
At least	But less than	0	1	2	3	4	5	6	7	8	9	10	
The amount of income tax to be withheld is—													
1060	1080	52	35	19	4	0	0	0	0	0	0	0	0
1080	1100	55	37	21	6	0	0	0	0	0	0	0	0
1100	1120	58	39	23	8	0	0	0	0	0	0	0	0
1120	1140	61	41	25	10	0	0	0	0	0	0	0	0
1140	1160	64	43	27	12	0	0	0	0	0	0	0	0
1160	1180	67	45	29	14	0	0	0	0	0	0	0	0
1180	1200	70	47	31	16	1	0	0	0	0	0	0	0
1200	1220	73	50	33	18	3	0	0	0	0	0	0	0
1220	1240	76	53	35	20	5	0	0	0	0	0	0	0
1240	1260	79	56	37	22	7	0	0	0	0	0	0	0
1260	1280	82	59	39	24	9	0	0	0	0	0	0	0
1280	1300	85	62	41	26	11	0	0	0	0	0	0	0
1300	1320	88	65	43	28	13	0	0	0	0	0	0	0
1320	1340	91	68	46	30	15	0	0	0	0	0	0	0
1340	1360	94	71	49	32	17	2	0	0	0	0	0	0
1360	1380	97	74	52	34	19	4	0	0	0	0	0	0
1380	1400	100	77	55	36	21	6	0	0	0	0	0	0
1400	1420	103	80	58	38	23	8	0	0	0	0	0	0
1420	1440	106	83	61	40	25	10	0	0	0	0	0	0
1440	1460	109	86	64	42	27	12	0	0	0	0	0	0
1460	1480	112	89	67	44	29	14	0	0	0	0	0	0
1480	1500	115	92	70	47	31	16	0	0	0	0	0	0
1500	1520	118	95	73	50	33	18	2	0	0	0	0	0
1520	1540	121	98	76	53	35	20	4	0	0	0	0	0
1540	1560	124	101	79	56	37	22	6	0	0	0	0	0
1560	1580	127	104	82	59	39	24	8	0	0	0	0	0
1580	1600	130	107	85	62	41	26	10	0	0	0	0	0
1600	1620	133	110	88	65	43	28	12	0	0	0	0	0
1620	1640	136	113	91	68	45	30	14	0	0	0	0	0
1640	1660	139	116	94	71	48	32	16	1	0	0	0	0
1660	1680	142	119	97	74	51	34	18	3	0	0	0	0
1680	1700	145	122	100	77	54	36	20	5	0	0	0	0
1700	1720	148	125	103	80	57	38	22	7	0	0	0	0
1720	1740	151	128	106	83	60	40	24	9	0	0	0	0
1740	1760	154	131	109	86	63	42	26	11	0	0	0	0
1760	1780	157	134	112	89	66	44	28	13	0	0	0	0
1780	1800	160	137	115	92	69	46	30	15	0	0	0	0
1800	1820	163	140	118	95	72	49	32	17	2	0	0	0
1820	1840	166	143	121	98	75	52	34	19	4	0	0	0
1840	1860	169	146	124	101	78	55	36	21	6	0	0	0
1860	1880	172	149	127	104	81	58	38	23	8	0	0	0
1880	1900	175	152	130	107	84	61	40	25	10	0	0	0
1900	1920	178	155	133	110	87	64	42	27	12	0	0	0
1920	1940	181	158	136	113	90	67	44	29	14	0	0	0
1940	1960	184	161	139	116	93	70	47	31	16	1	0	0
1960	1980	187	164	142	119	96	73	50	33	18	3	0	0
1980	2000	190	167	145	122	99	76	53	35	20	5	0	0
2000	2020	193	170	148	125	102	79	56	37	22	7	0	0
2020	2040	196	173	151	128	105	82	59	39	24	9	0	0
2040	2060	199	176	154	131	108	85	62	41	26	11	0	0
2060	2080	202	179	157	134	111	88	65	43	28	13	0	0
2080	2100	205	182	160	137	114	91	68	45	30	15	0	0
2100	2120	208	185	163	140	117	94	71	48	32	17	2	0
2120	2140	211	188	166	143	120	97	74	51	34	19	4	0
2140	2160	214	191	169	146	123	100	77	54	36	21	6	0
2160	2180	217	194	172	149	126	103	80	57	38	23	8	0
2180	2200	220	197	175	152	129	106	83	60	40	25	10	0
2200	2220	223	200	178	155	132	109	86	63	42	27	12	0
2220	2240	226	203	181	158	135	112	89	66	44	29	14	0
2240	2260	229	206	184	161	138	115	92	69	47	31	16	0

2 Locate employee's total earnings

3 Intersection of earnings and withholding allowance

Determining an Employee's Income Tax Withholding

1 Select the correct table. Married Persons—Semimonthly Payroll Period is used to determine income tax withholding for John P. Butler.

2 Locate the employee's total earnings between the appropriate lines of the At Least and But Less Than columns. Mr. Butler's total earnings for the pay period ended December 15, 20--, were \$1,466.25. Locate the line At Least \$1,460.00 But Less Than \$1,480.00.

3 Follow the selected wages line across to the column headed by the employee's number of withholding allowances. The amount listed at the intersection of the wages line and number of withholding allowances column is the amount of income tax to withhold. Mr. Butler's federal income tax withholding, with total earnings of \$1,466.25 and four withholding allowances, is \$29.00 for the semimonthly pay period ended December 15, 20--.

Employee Social Security and Medicare Tax LO4

The Federal Insurance Contributions Act (FICA) established a federal program for old-age, survivors, disability, and hospital insurance. A federal tax paid for old-age, survivors, and disability insurance is called [social security tax](#) . A federal tax paid for hospital insurance is called [Medicare tax](#) . Each of these taxes is accounted for and reported separately.

Social security and Medicare taxes are paid by both employees and employers. Employers are required to withhold and deposit the employees' taxes and pay a matching amount of these taxes. Thus, if an employer withholds \$85.00 from an employee's earnings, the business must also pay taxes of \$85.00, for a total of \$170.00. A self-employed individual must pay both the employee and employer tax.

Social security tax is calculated on employee earnings up to a maximum paid in a calendar year. The total gross earnings year to date for an employee is called [accumulated earnings](#) . The maximum amount of earnings on which a tax is calculated is called a [tax base](#) . When the amount of accumulated earnings equals the tax base, no additional taxes must be paid. Congress sets the tax base and the tax rates for the social security tax. An act of Congress can change the tax base and tax rate at any time. The social security tax rate and base used in this text are 6.2% of earnings up to a maximum of \$106,800.00 in each calendar year.

Between January 1 and December 15, Mr. Butler's earnings are less than the social security tax base. Therefore, Mr. Butler's social security tax deduction for the semimonthly pay period ended December 15, 20--, is calculated as shown.

Total Earnings	×	Social Security Tax Rate	=	Social Security Tax Deduction
\$1,466.25	×	6.2%	=	\$90.91

The Medicare tax does not have a tax base. Therefore, Medicare tax is calculated on total employee earnings. The Medicare tax rate used in this text is 1.45% of total employee earnings. Mr. Butler's Medicare tax deduction for the semimonthly pay period ended December 15, 20--, is calculated as shown.

Total Earnings	×	Medicare Tax Rate	=	Medicare Tax Deduction
\$1,466.25	×	1.45%	=	\$21.26



Accounting procedures are the same regardless of changes in the tax base and tax rate. The social security tax rate of 6.2% and the tax base of \$106,800.00 are assumed for all payroll calculations in this textbook.

Voluntary Deductions from Earnings LO5

The U.S. Congress uses tax law to motivate individuals to save for retirement. Tax laws also encourage employers to sponsor retirement savings plans for their employees. A retirement savings plan approved by the Internal Revenue Service that provides individuals with a tax benefit is called a [qualified retirement plan](#). Contributions to a qualified retirement plan are deposited in an investment account with a bank or other financial institution. Individuals can select from a range of investment options based upon the level of risk they wish to accept. Three popular qualified retirement plans are summarized below.

A **401(k)** is a qualified retirement plan sponsored by an employer. Employee contributions to a 401(k) are not taxable. These contributions are deducted from the employee's earnings subject to federal income taxes, thereby reducing the amount of taxes withheld. For this reason, contributions made to a 401(k) are referred to as pretax contributions.

Some businesses, as a fringe benefit, match their employees' 401(k) plan contributions. If an employer offers its employees a one-to-one match, it would contribute another \$2,000.00 to the account of an employee who contributed \$2,000.00. Thus, a total of \$4,000.00 would be contributed to the plan.

Contributions to a 401(k) and the investment income are generally not taxable to the employee until they are withdrawn. Thus, the federal income tax is deferred, or postponed, from the year the funds were deposited until the year the funds are withdrawn.

An **individual retirement account (IRA)** is a qualified retirement plan that provides most individuals with a deferred federal income tax benefit. Individuals can make contributions directly into their IRA accounts. Individuals can also direct their employers to withhold contributions from their earnings. IRA contributions made through payroll withholdings do not reduce earnings subject to federal income taxes. Individuals who qualify receive a tax benefit when filing their annual tax returns. Federal income taxes on qualified contributions and investment income are deferred until the funds are withdrawn.

A **Roth individual retirement account (Roth IRA)** is a qualified retirement plan that allows tax-free withdrawals from the account. Contributions to a Roth IRA are not deducted from total earnings and do not provide a current tax benefit. However, the contributions and investment income in a Roth IRA are not subject to federal income taxes when withdrawn. As they can do with an IRA, individuals can contribute to their Roth IRA accounts through direct deposits or payroll withholdings.

As a fringe benefit, businesses often provide employees with access to group health insurance plans. Employees are usually required to pay a portion of their health insurance premiums, especially for coverage of family members. A business may elect to have its health insurance plan approved by the IRS. Approved health insurance plans enable employees to pay their portion of the insurance premiums with pretax contributions. These contributions reduce the amount of wages subject to social security, Medicare, and federal income taxes.

The benefit of pretax contributions can be significant. Assuming a federal income tax rate of 30%, the

following example shows the impact of paying medical insurance premiums and retirement plan contributions with pretax dollars. Larry and Sandra have equal incomes, but only Larry's employer sponsors pretax medical and 401(k) plans. Sandra's employer does not sponsor a pretax medical plan, but she makes contributions to a Roth IRA.

		<u>Larry</u>	<u>Sandra</u>
By deducting his contributions from his total earnings subject to federal income taxes, Larry saved \$120.00 (\$1,820.00 – \$1,700.00). Both employees' \$250.00 retirement contributions will earn investment income free of tax until the funds are withdrawn. However, only Larry will have to pay income tax on withdrawals from his account.	Total earnings	\$3,000.00	\$3,000.00
	Medical insurance premiums	(150.00)	
	401(k) contribution	(250.00)	
	Earnings subject to federal income taxes	\$2,600.00	\$3,000.00
	Federal income taxes (30%)	780.00	900.00
	Net earnings after federal income taxes	\$1,820.00	\$2,100.00
	Medical insurance premiums		(150.00)
	Roth IRA		(250.00)
	Cash available	<u>\$1,820.00</u>	<u>\$1,700.00</u>

ThreeGreen has elected to encourage its employees to make contributions to a Roth IRA. The business is considering whether to sponsor a pretax medical insurance plan.



ax laws limit the annual amount a taxpayer can contribute to each type of qualified retirement plan.

End of Lesson Review

LO3 Demonstrate the process for determining federal income tax withholdings.

LO4 Demonstrate the process for calculating social security and Medicare taxes.

LO5 Explain the benefit of funding medical and retirement plans with pretax contributions.

Terms Review

- payroll
- taxes
- withholding allowance
- payroll deduction
- social security tax

- Medicare tax
- accumulated earnings
- tax base
- qualified retirement plan
- retirement account (Roth IRA)
- 401(k)
- individual retirement account (IRA)
- Roth individual

Audit Your Understanding

1. Where does an employer get the information used to determine the amount of federal income tax to withhold from employees' earnings?
2. Employee federal income tax withholdings are based on what two factors?
3. Does the employer or employee pay social security tax and Medicare tax?
4. What is the difference in the tax impact of contributions between a 401(k), an IRA, and a Roth IRA?
5. Are the withdrawals from a 401(k), an IRA, and a Roth IRA subject to income taxes?

Work Together 12-2

Determining payroll tax withholding

Information taken from a semimonthly payroll is given in the Working Papers. Your instructor will guide you through the following examples.

1. Determine the federal income tax that must be withheld for each employee. Use the tax withholding tables in this lesson.
2. Calculate the amount of social security tax and Medicare tax that must be withheld for each employee. Use a social security tax rate of 6.2% and a Medicare tax rate of 1.45%. None of the employees has accumulated earnings greater than the tax base. Round dollar amounts to the nearest cent.

On Your Own 12-2

Determining payroll tax withholding

Information taken from a semimonthly payroll is given in the Working Papers. Work this problem independently.

1. Determine the federal income tax that must be withheld for each employee. Use the tax withholding tables in this lesson.
2. Calculate the amount of social security tax and Medicare tax that must be withheld for each employee. Use a social security tax rate of 6.2% and a Medicare tax rate of 1.45%. None of the employees has accumulated earnings greater than the tax base. Round dollar amounts to the nearest cent.

Chapter 12: Preparing Payroll Records: Think Like an Accountant: Evaluating Employee Performance

Think Like an Accountant: Evaluating Employee Performance

Gerald Murphy is the sole accountant at Jenkins Vacations. The business rents and manages vacation rental property. Owners of homes at popular vacation destinations hire Jenkins Vacations to rent their properties. These “members” receive 60% of all rental fees.

In addition to managing the accounting system, Gerald is responsible for ensuring that the company meets its income goals. A major factor in achieving that goal is the quality of the service provided to customers.

The company employs 24 sales agents in its call center. Agents work with customers to arrange rentals from its inventory of properties. After each call is completed, the customer is asked to complete a survey to rate the quality of the service received. Customers rate the consultants on a scale of 1 (poor) to 5 (excellent).

Each week, the computer system provides Gerald with the ratings for each consultant. Gerald examines these ratings to identify consultants who are not meeting the company's quality standards. Gerald works with the consultants who are underperforming to improve the quality of their service.

Open the Spreadsheet TLA_CH12



Follow the steps on the Instructions tab. The worksheets on the Analysis and Week 15 Data tabs contain the ratings for two weeks. Using the worksheets, identify sales agents who meet the following criteria:

1. For week 14, identify the agents whose:
 - a. weekly change is in the top quarter of all agents.
 - b. average score is in the bottom quarter of all agents.
2. Answer the same questions for week 15.
3. What recommendations would you make regarding those consultants who consistently have poor performance?

Chapter 12:Preparing Payroll Records: Lesson 12-3: Preparing Payroll Records

Lesson 12-3: Preparing Payroll Records

Payroll Register LO6

Employee Earnings Records LO7

End of Lesson Review

LO6 Prepare a payroll register.

LO7 Prepare employee earnings records.

Payroll Register LO6

PAYROLL REGISTER															
SEMIMONTHLY PERIOD ENDED December 15, 20--				DATE OF PAYMENT December 15, 20--											
				1	2	3	4	5	6	7	8	9	10		
EMPL. NO.	EMPLOYEE'S NAME	MARITAL STATUS	NO. OF ALLOWANCES	EARNINGS			DEDUCTIONS						NET PAY	CHECK NO.	
				REGULAR	OVERTIME	TOTAL	FEDERAL INCOME TAX	SOCIAL SECURITY TAX	MEDICARE TAX	HEALTH INSURANCE	RETIREMENT PLAN	TOTAL			
12	Butler, John P.	M	4	1320.00	146.25	1466.25	29.00	90.91	21.26	7.00	8.00	291.17	1175.08	128	
7	Feng, Anthony R.	S	2	1440.00	54.00	1494.00	131.00	92.63	21.66	4.00	7.50	360.29	1133.71	29	
6	Lendsey, Ann C.	S	0	240.00	—	240.00	—	14.88	3.48	—	—	18.36	221.64	130	
1	Prisock, Mary G.	M	3	2000.00	—	2000.00	125.00	124.00	29.00	55.00	20.00	533.00	1467.00	131	
5	Swann, Justin A.	M	2	1320.00	112.50	1432.50	61.00	88.82	20.77	4.00	6.00	270.59	1161.91	132	
4	Wells, Cary B.	S	1	1444.00	—	1444.00	148.00	89.53	20.94	25.00	5.00	333.47	1110.53	133	
Totals				7764.00	312.75	8076.75	494.00	500.77	117.11	23.00	46.50	1806.88	6269.87		

1

2

3

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11

12

13

Pay Period Date

Earnings

Social Security Tax

Medicare Tax

Health Insurance

Retirement Plan

Payment Date

Employee Personal Data

Federal Income Tax

Total, Prove, and Rule

Total Deductions

Net Pay

Check Number

A **payroll register** summarizes the earnings, deductions, and net pay of all employees for one pay period. ThreeGreen prepares a separate payroll register for each semimonthly payroll.

Most states and some local governments have an income tax system. The methods of calculating state and local income taxes are significantly different from federal tax calculations. A business must understand the tax laws of every state and locality in which it operates and where its employees reside. For these reasons, state and local income taxes are ignored in this textbook.

Preparing a Payroll Register

1 Write the last date of the semimonthly payroll period, December 15, 20--, at the top of the payroll register.

2 Write the date of payment, December 15, 20--, also at the top of the payroll register.

3 For each employee, enter employee number, name, marital status, and number of allowances. This information is taken from personnel records. Entries for John P. Butler are on line 1 of the register.

4 Enter regular earnings, overtime earnings, and total earnings for each employee in columns

1, 2, and 3 of the payroll register. This information is taken from each employee's time card.

5 Enter in column 4 the federal income tax withheld from each employee. Mr. Butler's federal tax withholding is \$29.00.

6 Enter in column 5 of the payroll register the social security tax withheld from each employee. Mr. Butler's social security tax deduction, \$90.91, is recorded in column 5 of the payroll register. Mr. Butler's total earnings for the year have not exceeded the social security tax base. Thus, his total earnings for the pay period are taxed.

7 Enter in column 6 the Medicare tax withheld from each employee. Mr. Butler's Medicare tax deduction is \$21.26.

8 Enter in column 7 the health insurance premium deductions. Full-time ThreeGreen employees participate in a group health insurance plan. Mr. Butler's semimonthly health insurance premium is \$70.00. Premiums are set by the insurance company and are usually based on the employee marital status and the number of individuals covered.

9 Enter in column 8 the employee's contribution to a retirement plan. Mr. Butler has instructed ThreeGreen to withhold \$80.00 per pay period for his Roth IRA.

10 After all deductions are entered in the payroll register, add all the deduction amounts for each employee and enter the totals in column 9. Mr. Butler's total deductions, \$291.17, are calculated as shown.

$$\begin{array}{rccccccccc} \text{Federal} & & \text{Social} & & \text{Medicare} & & \text{Health} & & \text{Retirement} & & \text{Total} \\ \text{Income Tax} & + & \text{Security Tax} & + & \text{Tax} & + & \text{Insurance} & + & \text{Plan} & = & \text{Deductions} \\ \$29.00 & + & \$90.91 & + & \$21.26 & + & \$70.00 & + & \$80.00 & = & \$291.17 \end{array}$$

11 Determine the net pay for each employee. The total earnings paid to an employee after payroll taxes and other deductions is called [net](#)

$$\begin{array}{rcccl} \text{Total} & & \text{Total} & & \\ \text{Earnings} & - & \text{Deductions} & = & \text{Net Pay} \\ \$1,466.25 & - & \$291.17 & = & \$1,175.08 \end{array}$$

pay . Subtract the total deductions, column 9, from total earnings, column 3, to determine net pay. Enter net pay in column 10. Mr. Butler's net pay, \$1,175.08, is calculated as shown.

12 Total, prove, and rule the payroll register. Total each amount column. Subtract the Total Deductions column from the Total Earnings column. The result should equal the total of the Net Pay column. If the totals do not agree, the errors must be found and corrected. Proving the accuracy of ThreeGreen's payroll register for the pay period ended December 15, 20--, is shown.

$$\begin{array}{r} \text{Total} \\ \text{Earnings} \\ \$8,076.75 \end{array} - \begin{array}{r} \text{Total} \\ \text{Deductions} \\ \$1,806.88 \end{array} = \begin{array}{r} \text{Net Pay} \\ \$6,269.87 \end{array}$$

The net pay, \$6,269.87, is the same as the total of the Net Pay column. The payroll register is

proved. After the payroll register is proved, rule double lines below all amount column totals to show the totals have been verified as correct.

13 Payroll checks are written after a manager approves the payroll. Write the payroll check numbers in the Check No. column.

PAYROLL REGISTER

SEMI-MONTHLY PERIOD ENDED *December 15, 20--* DATE OF PAYMENT *December 15, 20--*

EMPL. NO.	EMPLOYEE'S NAME	MARITAL STATUS	ALLOWANCES	EARNINGS			DEDUCTIONS					NET PAY	CHECK NO.	
				REGULAR	OVERTIME	TOTAL	FEDERAL INCOME TAX	SOCIAL SECURITY TAX	MEDICARE TAX	HEALTH INSURANCE	RETIREMENT PLAN			TOTAL
2	Butler, John P.	M	4	1320.00	146.25	1466.25	29.00	90.91	21.26	7.00	8.00	291.17	1175.08	128
				768.00	753.75	8433.75	138.00	522.90	122.29	42.00	48.00	1683.19	6750.56	

EARNINGS RECORD FOR QUARTER ENDED *December 31, 20--*

EMPLOYEE NO. *2* LAST NAME *Butler* FIRST *John* MIDDLE INITIAL *P.* MARITAL STATUS *M* WITHHOLDING ALLOWANCES *4*

RATE OF PAY *\$75.00* PER HOUR SOCIAL SECURITY NO. *194-S1-5823* POSITION *Sales Associate*

NO.	ENDED	EARNINGS			DEDUCTIONS					NET PAY	ACCUMULATED EARNINGS	
		REGULAR	OVERTIME	TOTAL	FEDERAL INCOME TAX	SOC. SEC. TAX	MEDICARE TAX	HEALTH INSURANCE	RETIREMENT PLAN			TOTAL
1	10/15	1320.00	45.00	1365.00	19.00	84.63	19.79	7.00	8.00	273.42	1091.58	23205.00
2	10/31	1320.00	9.00	1410.00	23.00	87.42	20.45	7.00	8.00	280.87	1129.13	24615.00
3	11/15	1320.00	0.00	1320.00	15.00	81.84	19.14	7.00	8.00	265.98	1054.02	25935.00
4	11/30	1080.00	18.00	1260.00	9.00	78.12	18.27	7.00	8.00	255.39	1004.61	27195.00
5	12/15	1320.00	146.25	1466.25	29.00	90.91	21.26	7.00	8.00	291.17	1175.08	28661.25
6	12/31	1320.00	292.50	1612.50	43.00	99.98	23.38	7.00	8.00	316.36	1296.14	30273.75
7	QUARTERLY TOTALS	768.00	753.75	8433.75	138.00	522.90	122.29	42.00	48.00	1683.19	6750.56	

Employee Earnings Records
LO7

A business must send the IRS quarterly and annual reports of employee earnings and tax withholdings. Maintaining a record of each employee's payroll activity for a quarter is useful in preparing these reports. For example, that record is useful for identifying when individual employees exceed a tax base. A business form used to record details of an employee's

earnings and deductions is called an [employee earnings record](#) . The employee's earnings and deductions for each pay period are recorded on one line of the employee earnings record. A new earnings record is prepared for each employee each quarter. John Butler's earnings record for the fourth quarter is shown.

The steps for completing the employee earnings record are on the next page.

The 401(k) name relates to a section of the Internal Revenue Code. The 401(k) is just one of several methods available that enable employees to deduct their contributions from total earnings. A 403(b) plan, for example, allows pretax contributions for government employees and employees of tax-exempt organizations such as schools and churches. Amounts withdrawn from these plans are generally taxable when the funds are withdrawn.



Preparing an Employee Earnings Record

- 1 Enter the last day of the yearly quarter, December 31, 20--, at the top of the earnings record.
- 2 Enter the employee's number, name, marital status, withholding allowances, hourly rate, social security number, and position in the space provided. This information is taken from the employee's personnel records.
- 3 Enter the fiscal year's accumulated earnings for the beginning of the current quarter. This information is taken from the ending accumulated earnings for the previous quarter. Mr. Butler's accumulated earnings for the first three quarters ended September 30 are \$21,840.00. The Accumulated Earnings column of the employee earnings record shows the total earnings from the beginning of the fiscal year.
- 4 Enter the ending date of the pay period being recorded, 12/15.
- 5 Enter the earnings, deductions, and net pay in the columns of the employee earnings record. This information is taken from the current pay period's payroll register.
- 6 Add the current pay period's total earnings to the previous period's accumulated earnings. Mr. Butler's accumulated earnings as of December 15 are calculated as shown.

Accumulated Earnings as of December 1	+	Total Earnings for Pay Period Ended December 15	=	Accumulated Earnings as of December 15
\$27,195.00	+	\$1,466.25	=	\$28,661.25

The amounts in the Accumulated Earnings column supply an up-to-date reference for an employee's year-to-date earnings. When employee earnings reach the tax base, certain payroll taxes cease. For example, social security taxes are not owed beyond the first \$106,800.00 of earnings.

7 At the end of each quarter, total and prove the earnings record for each employee. Calculate quarterly totals for each amount column. Subtract the Total Deductions column from the Total Earnings column. The result should equal the total of the Net Pay column. If the totals do not agree, the errors must be found and corrected. Proving the accuracy of Mr. Butler's fourth quarterly totals is shown below.

Total Earnings	−	Total Deductions	=	Net Pay
\$8,433.75	−	\$1,683.19	=	\$6,750.56

The net pay, \$6,750.56, is compared to the total of the Net Pay column. The earnings record is proved because these amounts are equal. These totals are needed to prepare required government reports.



Total earnings, not net pay, is added to the previous accumulated earnings amount on the earnings record. Total earnings is the amount compared to the tax base to determine whether social security taxes should be withheld.

End of Lesson Review

LO6 Prepare a payroll register.

LO7 Prepare employee earnings records.

Terms Review

- payroll register
- net pay
- employee earnings record

Audit Your Understanding

1. What does the payroll register summarize?
2. How is net pay calculated?
3. Why do companies complete employee earnings records?

Work Together 12-3

Preparing payroll records

A payroll register for Judy's Fashions is provided in the Working Papers. Your instructor will guide you through the following examples.

1. Complete the payroll register for the semimonthly pay period ended July 15, 20--. Use the federal income tax withholding tables in Lesson 12-2. Use tax rates of 6.2% for social security tax and 1.45% for Medicare tax. Round dollar amounts to the nearest cent. Neither employee has reached the tax base. Withhold \$60.00 for health insurance and \$15.00 for a Roth IRA for each employee. The voluntary deductions are not eligible to be deducted from total earnings to calculate payroll taxes.
2. Total all the amount columns of the payroll register. Prove the payroll register.
3. Enter the July 15 payroll information on Mr. Johnson's quarterly earnings record. Mr. Johnson is employee number 2; rate of pay is \$15.00 per hour; social security number is 954-15-1568; position is sales manager. Accumulated earnings at the end of the second quarter are

\$17,218.00. Save your work to complete Work Together 12-4.

On Your Own 12-3

Preparing payroll records

A payroll register for Russell Company is provided in the Working Papers. Work this problem independently.

1. Complete the payroll register for the semimonthly pay period ended July 15, 20--. Use the federal income tax withholding tables in Lesson 12-2. Use tax rates of 6.2% for social security tax and 1.45% for Medicare tax. Round dollar amounts to the nearest cent. Withhold \$75.00 for health insurance and \$30.00 for a Roth IRA for each employee. The voluntary deductions are not eligible to be deducted from total earnings to calculate payroll taxes.
2. Total all the amount columns of the payroll register. Prove the payroll register.
3. Enter the July 15 payroll information on Mr. Patterson's quarterly earnings record. Mr. Patterson's employee number is 3; rate of pay is \$18.25 per hour; social security number is 941-74-4818; position is production scheduler. Accumulated earnings at the end of the second quarter are \$19,150.00. Save your work to complete On Your Own 12-4.

Chapter 12: Preparing Payroll Records: Forensic Accounting: Occupational Fraud: Detecting Shell Companies

Forensic Accounting: Occupational Fraud: Detecting Shell Companies

Instructions

Ruth Holder was patiently waiting her turn at a stop light. Watching the traffic cross in front of her, she saw something that surprised her. Alice Scott, an accounts payable clerk at her company, zoomed by in an expensive sports car. "How can someone earning \$35,000 a year afford a \$100,000 sports car?" she thought.

When Ruth returned to the office, she went straight to the office of Jack Torres, internal auditor. As she explained what she saw, Ruth was relieved that Jack understood her concern. "Anyone who is part of the purchasing function has, under certain circumstances, the ability to have checks processed to a shell company," he said. Sensing that Ruth did not understand, Jack continued. "A

shell company is a fictitious company created by an employee. The employee submits invoices for the payment of goods or services that were not ordered or received. Alice may have found a weakness in our controls. Or, she may be working with someone else in purchasing to avoid our controls.”

Soon after Ruth left his office, Jack entered your office and shut the door. Handing you a folder containing some papers and instructions, he began, “I have reason to suspect that checks may be getting processed to one or more shell companies. There are many tests that can detect a shell company,” he said. “Let's begin with the most basic test. The folder includes a list of employees who are involved with our purchasing function. Search our accounts payable data to determine if any of our vendors' names contain the last name of one of these employees. Having checks written to a shell company containing an employee's name makes it easier for that employee to cash the checks.”

Jack continued. “If an employee is involved in a shell company, chances are that the purchases will be for a service-related expense, not for such things as inventory or equipment. Other employees would discover those things were missing. Due to the sensitive nature of this investigation, report your findings directly to me. Do not make contact with any personnel in purchasing until we complete this initial phase of our investigation. After you get the results of this test, let's discuss our next step. Let me know if you have any questions.”

Instructions



Open the spreadsheet FA_CH12. Use the data in the workbook to identify any evidence of a shell company.

Chapter 12:Preparing Payroll Records: Lesson 12-4: Preparing Payroll Checks

Lesson 12-4: Preparing Payroll Checks

[Payroll Bank Account LO8](#)

[Employee's Payroll Check LO9](#)

[Electronic Funds Transfer](#)

[End of Lesson Review](#)

LO8 Justify the use of a payroll checking account.

LO9 Prepare employee payroll checks.

Payroll Bank Account LO8

THREEGREEN PRODUCTS, INC.		DATE <u>12/15/20--</u>	No. 312
PAYEE			
ACCOUNT	TITLE	DESCRIPTION	AMOUNT
		<i>December 15, 20-- payroll</i>	<i>\$6,269.87</i>

1
Prepare the check stub

THREEGREEN PRODUCTS, INC.
1501 Commerce Street
Carlisle, PA 17013

GENERAL ACCOUNT

Six thousand two hundred sixty-nine and 87/100

FOR CLASSROOM USE ONLY

PAY TO THE ORDER OF *First American Bank
Payroll Account 006863274
109 Delaware Street
Harrisburg, PA 17101*

FIRST AMERICAN BANK
109 Delaware Street
Harrisburg, PA 17101

DATE 12/15/20--

No. 312

AMOUNT \$ 6,269.87

Mary G. Prisock

2
Prepare the check

⑆ 61003 1141 006863274 0721 0312

Preparing a Check for Total Net Pay

1 Prepare the check stub. The payee is First American Bank, the location of ThreeGreen's payroll checking account. The date is 12/15/20-- and the description is the December 15, 20-- payroll. The amount, \$6,269.87, is the total of the Net Pay column of the payroll register.

2 Prepare the check from the information on the check stub. Include the address of the payee. The check is signed by Mary G. Prisock.

ThreeGreen pays its employees with checks written on a separate payroll checking account. A check

A separate payroll checking account helps to protect and control payroll payments. The exact amount needed to pay the payroll is deposited in the payroll checking account. If amounts on checks are altered or unauthorized payroll checks are prepared, the amount in the payroll account would be insufficient to cover all the checks. The bank and ThreeGreen would be alerted quickly to an unauthorized payroll check. Also, since payroll checks are drawn on the separate account, any balance in this account will correspond to the sum of outstanding payroll checks.

Employee's Payroll Check L09

Preparing an Employee's Payroll Check

The total current earnings, \$1,466.25, should match the total earnings on the payroll register.

3 Enter the employee's current deductions from the payroll register and record the total.

Record earnings information from the time card and payroll register **1**

Record current deductions from the payroll register **3**

Add current deductions to YTD deductions from the prior check stub **4**

John P. Butler

December 15, 20--

Type	Hours	Rate	Gross Pay	Deductions	Current	YTD
Regular	80.00	15.00	1,200.00	Federal Income Tax	29.00	580.00
Overtime	6.50	22.50	146.25	Social Security Tax	90.91	1,777.00
				Medicare Tax	21.26	415.59
				Health Insurance	70.00	1,330.00
				Retirement	80.00	1,520.00
Current Total Earnings			1,466.25	Totals	291.17	5,622.59
YTD Total Earnings			28,661.25	Net Pay	1,175.08	23,038.66

PAYROLL ACCOUNT

December 15, 20--

THREEGREEN PRODUCTS, INC.

Pay to the order of *John P. Butler*

\$ 1,175.08

One thousand one hundred seventy-five and 08/100

Dollars

66-311
610

No. 67

FOR CLASSROOM USE ONLY

FIRST AMERICAN BANK

Harrisburg, PA 17101

Mary G. Prisock

⑆ 61003114⑆ 006863274⑈067⑈

Record YTD total earnings from the employee earnings record **2**

Prepare the employee's payroll check in the amount of net pay **6**

Enter column totals and net pay **5**

\$291.17.

4 Add each current deduction amount to the YTD amount reported on the employee's prior check stub and record the total, \$5,622.59. For example, John Butler's November 30 check stub reported year-to-date federal income taxes of \$551.00. The YTD federal income tax deduction is \$580.00 (\$551.00 + \$29.00).

5 Total the Current and YTD deductions columns. Calculate and enter the amounts for Current and YTD net pay (\$1,466.25 – \$291.17 = \$1,175.08; \$28,661.25 – \$5,622.59 = \$23,038.66).

6 Prepare each employee's payroll check payable for the amount of net pay. John P. Butler's net pay is \$1,175.08.

The time card and payroll register are the primary sources of information to prepare a payroll check. Year-to-date information is calculated using information from the employee earnings record and the prior payroll. The payroll checks have vouchers, detachable stubs, for recording earnings and deductions. Employees keep their paycheck stubs as a record of deductions and cash received.

Electronic Funds Transfer

John P. Butler				December 15, 20--	
Type	Hours	Rate	Gross Pay	Deductions	
Regular	80.00	15.00	1,320.00	Federal Income Tax	29.00
Overtime	6.50	22.50	146.25	Social Security Tax	90.91
				Medicare Tax	21.26
				Health Insurance	70.00
				Retirement	80.00
Current Total Earnings			1,466.25	Totals	291.17
YTD Total Earnings			28,661.25	Net Pay	1,175.08
Direct Deposit Distribution					
Checking XXXXXXXX74			1,175.08		

THREEGREEN PRODUCTS, INC.		December 15, 20--	
Pay to the order of John P. Butler		Advice Number: 00000123456	\$ 1,175.08
One thousand one hundred seventy-five and 08/100		Dollars	
NON-NEGOTIABLE		Direct Deposit Confirmation Only Not a Valid Check	

A computerized cash payments system that transfers funds without the use of checks, currency, or other paper documents is called electronic funds transfer (EFT). The payment of an employee's net pay using electronic funds transfer is called **direct deposit**. A business that pays its employees using direct deposit transmits payroll information to its bank. The bank electronically deducts

the total amount of employees' net pay from the business's payroll checking account. Each employee's net pay is deposited in his or her bank account.

The payroll must still be calculated, but payroll checks are not written and do not have to be distributed. Each employee receives a printed or electronic statement of earnings and deductions resembling a payroll check. The voucher portion at the top includes a reference to the employee's checking account number and the amount deposited. The bottom portion contains several notations clearly indicating that the document is not a negotiable check. Bank information, such as the bank routing number and account number, are not displayed.



Using a separate checking account for payroll checks provides internal control and helps to prevent fraud.



Employees are responsible for contacting their employer when the number of their dependents changes. A new W-4 form should be completed and a copy of the form sent to the Internal Revenue Service.

End of Lesson Review

LO8 Justify the use of a payroll checking account.

LO9 Prepare employee payroll checks.

Terms Review

- voucher check
- direct deposit

Audit Your Understanding

1. Why does ThreeGreen have a separate checking account for payroll checks?
2. What is the source of the information that is recorded on each employee's payroll check voucher?
3. How do payroll procedures differ for employees who request direct deposit of their pay?

Work Together 12-4

Preparing payroll checks

Use the payroll register from Work Together 12-3. The Working Papers contain (1) one blank general account check, (2) two blank payroll account checks, and (3) prior pay period pay stubs for each employee. Your instructor will guide you through the following examples.

1. Prepare Judy's Fashions' general account check for the pay period ended July 15, 20--. The payment date is July 15. Prepare the check to the order of First Community Bank. The payroll account number is 148-164-118. Sign your name as the manager of Judy's Fashions.
2. Complete the payroll checks for the pay period ended July 15, 20--. The payment date is July 15. Sign your name as the manager of Judy's Fashions. Record the two payroll check numbers in the payroll register.

On Your Own 12-4

Preparing payroll checks

Use the payroll register from On Your Own 12-3. The Working Papers contain (1) one blank general account check, (2) two blank payroll account checks, and (3) prior pay period pay stubs for each employee. Work this problem independently.

1. Prepare Russell Company's general account check for the pay period ended July 15, 20--. The payment date is July 15. Prepare the check to the order of First American Bank. The payroll account number is 748-476-7. Sign your name as the manager of Russell Company.
2. Complete the payroll checks for the pay period ended July 15, 20--. The payment date is July 15. Sign your name as the manager of Russell Company. Record the two payroll check numbers in the payroll register.

Chapter 12: Preparing Payroll Records: Financial Literacy: Personal Federal Income Taxes

Financial Literacy: Personal Federal Income Taxes

Activities

Individuals are required to prepare an annual tax return, Form 1040, to report the amount of income tax owed to the government. Payroll withholding tables attempt to estimate the amount of income tax an individual will be required to pay based on earnings. However, income tax is also due on other

sources of income, such as interest and dividends. The sum of all sources of income reported on Form 1040 is labeled total income.

When preparing their tax returns, individuals are allowed to subtract from their total income certain adjustments, such as retirement plan contributions, tuition, and moving expenses. The amount of total income minus adjustments, reported on Form 1040, is called adjusted gross income.

Tax laws allow taxpayers to deduct certain expenses from adjusted gross income. Individuals can elect to itemize deductions by listing these expenses on Schedule A. Or, they can elect to take a standard deduction using a fixed amount based on their filing status—married or single. Next, individuals can deduct from adjusted gross income the amount of their exemptions (computed as a standard amount per person multiplied by the number of individuals supported by the taxpayer). The value that results after subtracting deductions and exemptions from adjusted gross income is the amount used to calculate income tax. The amount of total income minus adjustments, deductions, and exemptions that is used to calculate income tax is called taxable income.

Activities

1. Visit the IRS website at www.irs.gov and research Form 1040 Schedule A. List and explain five deductions that taxpayers can itemize in calculating their income tax.
2. Even after the income tax is calculated, tax law allows several reductions in the amount of income tax owed. What are these reductions called? List and explain two of these reductions.

Chapter 12:Preparing Payroll Records: End of Chapter Review

End of Chapter Review

[Preparing Payroll Records: A Look at Accounting Software](#)

[Preparing Payroll Records: Chapter Summary](#)

[Preparing Payroll Records: Explore Accounting](#)

[Preparing Payroll Records: Apply Your Understanding: Application Problem](#)

[Preparing Payroll Records: Apply Your Understanding: Mastery Problem](#)

[Preparing Payroll Records: Apply Your Understanding: Source Documents Problem](#)

[Preparing Payroll Records: Apply Your Understanding: Challenge Problem](#)

[Preparing Payroll Records: 21st Century Skills](#)

Preparing Payroll Records: Analyzing Nike's Financial Statements

Preparing Payroll Records: A Look at Accounting Software

Processing Payroll in the Enter Payroll Window

The screenshot shows the 'Enter Payroll' window with the following elements:

- 1** Employee No.: 0007
- 2** Pay Period: From Dec. 1, 20-- To Dec. 15, 20--
- 3** Date: Dec. 15, 20--
- 4** Employee Earnings table (highlighted in yellow for user input):

Regular Rate	Regular Hours	Regular Pay	Overtime Hours	Overtime Rate	Overtime Pay	Vacation Hours	Vacation Pay	Gross Pay
18.00	80.0	1,440.00	2.0	27.00	54.00	0.0	0.00	1,494.00

- 5** Employee type: ☒ Hourly ☐ Salaried ☐ Direct Deposit
- 6** Employee Deductions table (highlighted in green for automatic entry):

Deduction	Amount
Federal Income Tax	-131.00
State Income Tax	0.00
City Income Tax	0.00
Social Security	-92.63
Medicare	-21.66
Health Insurance	-40.00
Retirement Plan	-75.00
TOTAL	-360.29

- 7** Employer Expenses table (highlighted in green for automatic entry):

Expense	Amount
Social Security	92.63
Medicare	21.66
Federal Unemployment	11.95
State Unemployment	80.68
Health Insurance	0.00
TOTAL	206.92

- 8** Check Amount: 1,133.71
- 9** Checks menu: Payroll Report

Legend: Yellow = Entered by user, Green = Entered automatically

1 After the user selects this employee's number, his name and address are retrieved by the system from his individual payroll record. The arrow keys, lower left, are used to navigate from one employee to another.

2 The user selects beginning and ending dates for the pay period. These dates only need to be selected when entering the first employee for each pay period. The dates remain the same until changed.

3 The system sets the current date, the next check number, and the Cash account. The Cash account can be changed if it is different.

4 On the Employee Earnings line, the user can only enter the hours. Pay rates as well as exemptions and marital status are retrieved by the system from each employee's payroll record. For a salaried

employee, the Regular Rate would be their semimonthly salary. No hours would be entered for a salaried employee.

5 This row is for information only. If any items were incorrect, they would have to be updated in the individual employee payroll record. If the employee had taken vacation during the pay period, those hours would be entered under Vacation Hours and the Accrued Vacation Hours field would show the new balance.

6 Tax rates are downloaded into the system from the IRS website. The system uses those rates to compute the withholding amounts. Deductions for health insurance and retirement are retrieved from each employee's payroll record.

7 Employer payroll expenses are also computed by the system. These expenses and the related liabilities will be posted to the various employer general ledger accounts.

8 The system computes the employee's net pay and enters it in the Check Amount field.

9 The user clicks Save after entering each employee's payroll information. A new, blank screen automatically appears, allowing the user to enter the hours for the next employee. When all payroll entries are complete, the user clicks Print and selects Checks from the drop-down menu to print all paychecks. A payroll report similar to a payroll register may also be printed.

In the manual payroll system used by ThreeGreen, the business maintains paper copies of employee earnings records and computes its payroll using a paper payroll register. Employee time cards are the source documents for the payroll register. Other companies might use technology such as spreadsheet software and electronic time clock systems.

In a computerized accounting system, most of the fields in the Enter Payroll window are populated by the system from data contained in individual employee payroll records. The user simply selects an employee and enters the number of hours worked. As an alternative, the hours worked could be entered off of a report printed from an electronic time clock system. More advanced time clock systems can transfer an electronic file containing the hours worked directly into the computerized accounting system. As a result, no manual entry of employee hours would be required. However, management would review and verify the hours worked before printing paychecks.

A business uses a time card system to collect information on the number of hours worked by each hourly employee. Most employers are required to pay employees overtime pay for hours worked over 40 hours per week. The overtime pay rate is typically 1½ times the regular pay rate. The total of regular and overtime pay is called total earnings and is also known as gross pay.

Employers are required to withhold federal income taxes, social security taxes, and Medicare taxes from the employees' total earnings. Employees may be able to have medical insurance, retirement contributions, and other items deducted from their total earnings. Payroll taxes and voluntary deductions are deducted from total earnings to determine net pay, the amount actually paid to the employees. Tax laws enable employees to deduct some voluntary deductions, such as health insurance and retirement contributions, before the calculation of federal income taxes.

A payroll register is used to summarize earnings, deductions, and net pay of all employees. A payroll register is prepared for each pay period. The payroll register is used to update an employee earnings record, a form useful in submitting quarterly and annual payroll tax reports to government agencies.

A check for the total net pay of all employees is written to a special payroll account. Payroll checks for each employee are written on the payroll account using the information in the payroll register.

Preparing Payroll Records: Explore Accounting

Progressive Income Taxes

The tax tables used in this chapter provide an easy method of determining federal income tax withholdings. The tables are based on (1) an annual \$3,650.00 per person withholding allowance and (2) tax rates that change in relation to the employee's total earnings. A progressive tax increases the tax rate as the taxpayer's taxable earnings increase.

The annual tax rates for a married person (effective when this book was written) are shown below. Note that a taxpayer does not begin paying income taxes until his or her wages exceed

(b) MARRIED person—			
If the amount of wages (after subtracting withholding allowances) is:			The amount of income tax to withhold is:
Not over \$13,750			\$0
Over—	But not over—		of excess over—
\$13,750	—\$24,500 . . .	10%	—\$13,750
\$24,500	—\$75,750 . . .	\$1,075.00 plus 15%	—\$24,500
\$75,750	—\$94,050 . . .	\$8,762.50 plus 25%	—\$75,750
\$94,050	—\$124,050 . . .	\$13,337.50 plus 27%	—\$94,050
\$124,050	—\$145,050 . . .	\$21,437.50 plus 25%	—\$124,050
\$145,050	—\$217,000 . . .	\$26,687.50 plus 28%	—\$145,050
\$217,000	—\$381,400 . . .	\$46,833.50 plus 33%	—\$217,000
\$381,400		\$101,085.50 plus 35%	—\$381,400

\$13,750.00 (after deducting withholding allowances). To use a tax rate table, locate the employee's total earnings between the appropriate lines of the Over and But not over columns. Each line of a tax table is referred to as a tax bracket and is often identified by the tax rate. Thus, a taxpayer earning \$100,000.00 is said to be "in the 27% tax bracket." The bracket tax rate is also referred to as a marginal tax rate.

For the December 15 payroll, Mary Prisock earned \$2,000.00. If Ms. Prisock earned that salary for the whole year, she would earn an annual salary of \$48,000.00. After deducting \$3,650.00 for each of her three withholding allowances, she would have \$37,050.00 of earnings subject to income taxes. That would place her "in the 15% tax bracket." So, she would pay \$1,075.00 plus 15% of the excess earnings over \$24,500.00, as shown on the next page.

Annual gross wages	\$48,000.00
Less: Withholding allowances	
($\\$3,650.00 \times 3$)	<u>10,950.00</u>
Equals: Wages subject to federal income tax	<u><u>\$37,050.00</u></u>
15% bracket minimum tax	\$ 1,075.00
Plus: Additional tax	
($\\$37,050.00 - \\$24,500.00$) \times 15%	<u>1,882.50</u>
Equals: Annual federal income tax	<u><u>\$ 2,957.50</u></u>

The annual income tax of \$2,957.50 is divided by 24 to determine the \$123.00 amount to be withheld from each semimonthly pay period. ($\$2,957.50 \div 24$ periods = \$123.23, rounded to \$123.00). Using the tax tables in this chapter, taxes of \$125.00 would be withheld (\$2,000.00 earnings with 3 withholding allowances). Both methods produce nearly identical amounts. The IRS will accept either method.

A common misconception of a progressive income tax is that a taxpayer pays the bracket percentage on all earnings. The effective tax rate, the actual income tax divided by total earnings, is a measure of

the amount of tax actually paid. Ms. Prisock's effective tax rate is only 6.16% ($\$2,957.50 \div \$48,000.00$). However, she will pay 15% of every additional dollar earned until she earns the minimum of the next tax bracket.

Obtain a current version of Publication 15 (Circular E), Employer's Tax Guide. Locate the tax rate table for married persons for annual payroll periods.

1. How have the amounts and rates in the tax brackets changed from the table shown above?
2. What political and economic forces can explain the differences, especially in the tax rates, for the higher income tax brackets?
3. What was the highest marginal tax rate for married taxpayers in 1970?

Preparing Payroll Records: Apply Your Understanding: Application Problem

INSTRUCTIONS: Download problem instructions for Excel, QuickBooks, and Peachtree from the textbook companion website at www.C21accounting.com .

12-1 Application Problem: Calculating Total Earnings LO1, 2

The December 15 time card for Marcus T. Groves and time card information for other employees are provided in the Working Papers.

Instructions:

1. Calculate the regular, overtime, and total hours worked by Mr. Groves. Any hours over eight hours per day or 40 hours per week are considered overtime. Each work week begins on Monday. Record the hours on the time card.
2. Enter the regular and overtime hours for Mr. Groves in the schedule. For each employee, calculate the amount of regular, overtime, and total earnings. Overtime hours are paid at 1½ times the regular rate.

12-2 Application Problem: Determining Payroll Tax Withholding LO3, 4

Information taken from the semimonthly payroll register is given in the Working Papers.

Instructions:

1. Determine the federal income tax that must be withheld for each of the eight employees. Use the tax withholding tables in Lesson 12-2.

2. Calculate the amount of social security tax and Medicare tax that must be withheld for each employee using 6.2% and 1.45% tax rates, respectively. None of the eight employees has accumulated earnings greater than the tax base.

12-3 Application Problem: Preparing Payroll Records LO6, 7



1. Record the regular and overtime earnings for each employee on the payroll register.
2. Print the payroll register.

The information for Warne Company's semimonthly pay period, September 16–30 of the current year, and the earnings record for Mary A. Terrell are given in the Working Papers.

Instructions:

1. Complete a payroll register. Use the tax withholding tables in Lesson 12-2 to find the federal income tax withholding for each employee. Calculate withholdings for social security and Medicare taxes using 6.2% and 1.45% tax rates, respectively. None of the employees has accumulated earnings greater than the social security tax base. Each employee's health insurance and retirement plan deductions have been entered in the payroll register. The voluntary deductions are not eligible to be deducted from total earnings to calculate payroll taxes.
2. Record the information for Ms. Terrell from the September 30 payroll register in the earnings record.
3. Record the quarterly totals on Ms. Terrell's earnings record.

12-4 Application Problem: Preparing Payroll Checks LO9



1. Journalize and post payroll-related transactions in the Payments window.
2. Print the cash disbursements journal.



1. Journalize and post payroll-related transactions in the Write Checks window.
2. From the menu bar, select Reports; Banking, Check Detail.
3. In the Dates drop-down box, select All and make the selections to print.

Castle Electronics' net payroll for the semimonthly pay period ended May 15, 20--, is \$7,498.80.

Payroll checks are prepared on May 15, 20--. Blank checks and the prior period paycheck stubs are

provided in the Working Papers.

Instructions:

1. Prepare a general account check for the total amount of the net pay. Make the check payable to The Peoples Bank, Payroll Account 518-481-148, and sign your name as manager of Castle Electronics.
2. Prepare payroll checks for two employees of Castle Electronics. Payroll information for the two employees is as follows. Sign your name as a manager of Castle Electronics.

a.

Mitchell R. Haynes	
Check No. 658	
Regular earnings	\$1,280.00
Overtime earnings	60.00
Deductions:	
Federal income tax	\$71.00
Social security tax	83.08
Medicare tax	19.43
Health insurance	50.00
Retirement	25.00

b.

Sharon V. Bricken	
Check No. 659	
Regular earnings	\$1,160.00
Overtime earnings	36.98
Deductions:	
Federal income tax	\$86.00
Social security tax	74.21
Medicare tax	17.36
Health insurance	65.00

Retirement	40.00
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Preparing Payroll Records: Apply Your Understanding: Mastery Problem

12-M Mastery Problem: Preparing a Semimonthly Payroll LO3, 4, 6, 9

Prior pay period paycheck stubs and selected payroll data for Malone Company are provided in a payroll register in the Working Papers.

Instructions:

1. Prepare a payroll register. Use the tax withholding tables in Lesson 12-2 to find the federal income tax withholding for each employee. Calculate withholdings for social security and Medicare taxes using 6.2% and 1.45% tax rates, respectively. None of the employees has accumulated earnings greater than the social security tax base. The voluntary deductions are not eligible to be deducted from total earnings to calculate payroll taxes.
2. Prepare a check for the total amount of the net pay. Make the check payable to First American Bank, Payroll Account 345-59-721, and sign your name as the manager of Malone Company.
3. Prepare payroll checks for Henry W. Davis, Check No. 452, and Juan S. Garcia, Check No. 453. Sign your name as the manager of Malone Company. Record the two payroll check numbers in the payroll register.



1. Journalize and post payroll-related transactions in the Payments window.
2. Print the cash disbursements journal.



1. Journalize and post payroll-related transactions in the Write Checks window.
2. From the menu bar, select Reports; Banking, Check Detail.
3. In the Dates drop-down box, select All and make the selections to print.




1. Go to www.cengage.com/login
2. Click on AA Online to access.
3. Go to the online assignment and follow the instructions.

Preparing Payroll Records: Apply Your Understanding: Source Documents Problem

12-S Source Documents Problem: Preparing a Semimonthly Payroll LO2, 3, 4, 6, 7, 9

Jenkins Cabinets uses a computerized time card system. Payroll forms and selected payroll data are provided in a payroll register in the Working Papers.

Instructions:

1. Prepare the payroll register. Use the tax withholding tables in Lesson 12-2 to find the federal income tax withholding for each employee. Calculate withholdings for social security and Medicare taxes using 6.2% and 1.45% tax rates, respectively. None of the employees has accumulated earnings greater than the social security tax base. The voluntary deductions are not eligible to be deducted from total earnings to calculate payroll taxes.
 2. Update each employee's earnings record.
 3. Prepare a check for the total amount of the net pay. Make the check payable to First National Savings Bank, Payroll Account 481-154-488. Sign your name as the manager of Jenkins Cabinets.
 4. Prepare payroll checks for each employee. Sign your name as the manager of Jenkins Cabinets.
1.  Go to www.cengage.com/login
 2. Click on AA Online to access.
 3. Go to the online assignment and follow the instructions.

Preparing Payroll Records: Apply Your Understanding: Challenge Problem

12-C Challenge Problem: Preparing a Semimonthly Payroll with Pretax Medical and Retirement Plans
LO3, 4, 6

Assume Malone Company (Problem 12-M) offers its employees pretax medical and 401(k) plans. Earnings and voluntary deduction information are provided on the payroll register in the Working Papers.

Instructions:

1. Prepare a payroll register. Health insurance premiums and retirement plan contributions are eligible to be deducted from total earnings to calculate federal income taxes. Only health insurance premiums are eligible to be deducted from total earnings to calculate social security and Medicare taxes. Use the income tax withholding tables in Lesson 12-2 to find the income tax withholding for each employee. Calculate withholdings for social security and Medicare

taxes using 6.2% and 1.45% tax rates, respectively. None of the employees has accumulated earnings greater than the social security tax base.

2. Prepare a schedule that calculates the difference in each employee's net pay.



1. Record the regular and overtime earnings for each employee on the payroll register.
2. Print the payroll register.

Preparing Payroll Records: 21st Century Skills

What's Your Story? Preparing a Resume

Theme: Financial, Economic, Business, and Entrepreneurial Literacy

Skills: Creativity and Innovation, Information Literacy

A resume is the first thing an employer sees when reviewing a candidate for a job. Therefore, having an exceptional resume improves your chances of getting a job interview. However, creating a resume with little or no work experience can be challenging. Hiring managers may receive hundreds of resumes. You can make yours stand out and get the interview by following some simple guidelines.

A resume provides a statement of your education, experience, and qualifications. It should highlight your strengths and accomplishments. Jobs in accounting require attention to detail as well as problem-solving, mathematical, communication, computer, and people skills. Therefore, your resume for an accounting job should include classes you have taken that required analytical skills and cite examples of situations where you have worked as a team player. Most accounting jobs involve the use of accounting software, so be sure to include your experience with computers and software.

A bulleted list summarizing your qualifications is a great way to begin your resume. Many employers use technology to screen applicants by placing resumes in a keyword searchable database. Searching a database of resumes helps the employer determine which applicants align with the skills they want in an employee. Don't forget to use key terms to improve the likelihood that your resume will be found in a database search. A resume is an advertisement of who you are. Tell your story!

Application

1. Using the library or Internet, research sample resumes. Then, prepare a resume that you could

send to a prospective employer. Remember to emphasize skills and qualifications necessary to the position.

2. Phil Knight, founder of Nike and famous author, John Grisham, were both accountants. Using the Internet, research one of the above or another famous accountant. Imagine that this person has decided to re-enter the accounting profession. Create a resume outlining his or her skills and qualifications.

Preparing Payroll Records: Analyzing Nike's Financial Statements

Each annual report contains a section that tells how the financial statements were prepared.

Accounting and management policies that were followed are described in detail. The report provides assurance that amounts on the financial statements can be relied upon to make business decisions.

Instructions

Use Management's Annual Report on Internal Control Over Financial Reporting on page B-4 in Appendix B to answer the following questions.

1. Who is responsible for preparing Nike's financial statements?
 2. What is the system of internal control designed to do?
- Can internal controls prevent or detect all misstatements?