

## CHAPTER 12 – PREPARING PAYROLL RECORDS

- I. Paying Employees
  - A. Hobby Shack employs several people to work in the business, and they record the time they work each day.
  - B. Periodically they pay its employees for the number of hours each employee has worked.
  - C. **Salary – the money paid for employee services.**
  - D. **Pay period – the period covered by a salary payment.**
    - 1. A business may use a pay period of a week, every two weeks, twice a month, or once a month.
    - 2. Hobby Shack uses a semimonthly pay period, and employees are paid on the 15<sup>th</sup> and last day of each month.
  - E. **Payroll – the total amount earned by all employees for a pay period.**
    - 1. The payroll is reduced by state and federal taxes and other deductions, such as health insurance, and the amount of deductions helps determine the amount actually paid to all employees.
    - 2. Special payroll records are used:
      - a. To support the recording of payroll transactions in a journal.
      - b. To inform employees of their annual earnings.
      - c. To prepare payroll reports for the government.

### **12-1 Preparing Payroll Time Cards**

- II. Payroll Time Cards
  - A. All businesses must have an accurate record of the time each employee has worked.
  - B. Many businesses use time cards as the basic source of information to prepare a payroll.
    - 1. Some time cards only require employees to record the total hours worked each day. These are usually prepared by hand.
    - 2. Hobby Shack uses a time clock to record the daily arrival and departure times of its employees.
      - a. Example of Hobby Shacks time card – see Page 342.
      - b. Hobby Shack's time cards have three sections – morning, afternoon, and overtime with In and Out columns under each section.
    - 3. Calculating employee hours worked from the time card:
      - a. Calculate the number of regular hours for each day and enter the amounts in the Hours Reg. column.
        - (1) The hours worked in the morning and afternoon are calculated separately.
        - (2) Times in and out are rounded to the nearest 1/4 hour.

- b. Calculate the number of overtime hours for each day and enter the amounts in the Hours OT column.
  - c. Add the hours worked in the Hours Reg. and Hour OT columns and enter the totals in the space provided at the bottom of the time card.
  - d. Add the Hours column to calculate the total hours. Enter the total in the Hours column at the bottom of the time card.
4. Once the total regular and overtime hours are determined, employee earnings can be calculated.
- a. **Total earnings – the total pay due for a pay period before deductions.**
  - b. Taxes and other deductions must be subtracted from total earnings to determine the actual amount that each employee will be paid.
5. Calculating an employees total earnings:
- a. Enter the rate for regular time in the Rate column.
  - b. Calculate the regular earnings by multiplying regular hours times the regular rate and enter the amount of regular earnings in the Regular Amount space.
  - c. Enter the rate for overtime in the Rate column – it's usually 1 ½ times the regular rate.
  - d. Calculate the overtime earnings by multiplying overtime hours time the overtime rate and enter the amount of overtime earnings in the Overtime Amount space.
  - e. Add the Amount column to calculate the total earnings and enter the amount of total earnings in the Total Earnings space.
6. See Pages 342 and 343 for illustrations of calculating hours worked and total earnings.

## **12-2 Determining Payroll Tax Withholding**

### **III. Payroll taxes – taxes based on the payroll of a business.**

1. A business is required by law to withhold certain payroll taxes from employee.
  - a. All payroll taxes are based on employee total earnings.
  - b. Accurate and detailed payroll records must be maintained at all times.
  - c. Federal and state governments may charge a business a penalty for failure to pay correct payroll taxes when they are due.
  - d. Payroll taxes withheld are a liability for the employer until aid into the government.

## 2. Employee Income Tax

- a. A business must withhold federal income taxes from employee total earnings.
- b. The withheld taxes must be forwarded periodically to the federal government.
- c. Federal income tax is withheld from employee earnings in all 50 states.
- d. Employers in many states must also withhold state, city, or county income taxes from employee earnings.
- e. ***Withholding allowance – a deduction from total earnings for each person legally supported by a taxpayer, including the employee.***
- f. Each employee must fill out a W-4 Form, Employee's Withholding Allowance Certificate, which includes the number of withholding allowances. See example on Page 346 (also includes the steps in filling out the certificate).
- g. The amount of income tax withheld is based on employee marital status and number of withholding allowances.
  - (1) A married employee will have less income tax withheld than a single employee with the same total earnings.
  - (2) The larger the number of withholding allowances claimed, the smaller the amount of income tax withheld.
- h. Most employees are required to have federal income taxes withheld from their salaries.
  - (1) An exception from withholding is available for certain low-income and part-time employees.
  - (2) To be exempted, the employee must meet the requirements listed in item 7 of the W-4 Form.
  - (3) Individuals cannot claim exemption from withholding if (1) their income exceeds \$700 and includes unearned income such as interest and dividends and (2) another person can claim them as a dependent on their tax return.
- i. The amount of federal income tax withheld from each employee's total earnings is taken from withholding tables prepared by the Internal Revenue Service.
  - (1) These tables are revised each year and are available from the IRS.
  - (2) Tables are prepared for various payroll periods—monthly, semimonthly, biweekly, weekly, and daily.
  - (3) There are different tables available for single persons and for married persons since both are taxed at different levels.

- (4) See examples for withholding tables – Pages 347 and 348.
- j. Determining an employee's income tax withholding
  - (1) Select the appropriate table (married or single and the pay period).
  - (2) Locate employee's total earnings between the appropriate lines of the *At Least* and *But Less Than* columns.
  - (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 allowances is the employee's amount of income tax withholding.
3. Employee social security and Medicare tax
  - a. The Federal Insurance Contributions Act (FICA) provides for a federal system of old-age, survivors, disability, and hospital insurance.
  - b. ***Social security tax – a federal tax paid for old-age, survivors, and disability insurance.***
  - c. ***Medicare tax – a federal tax paid for hospital insurance.***
  - d. Each of the two taxes is accounted for and reported separately.
  - e. Social security and Medicare taxes are paid by both employees and employer; employers are required to withhold and deposit employees' part of the taxes and pay a matching amount of these taxes.
  - f. Social security tax is calculated on employee earnings up to a maximum paid in a calendar year.
    - g. ***Tax base – the maximum amount of earnings on which a tax is calculated.***
      - (1) Congress sets the tax base and the tax rates for social security tax.
      - (2) An act of Congress can change the tax base and tax rate at any time.
- **This text uses 6.2% of earnings up to a maximum of \$87,000 per calendar year.**
  - (3) Medicare does not have a tax base. Therefore, it is calculated on total employee earnings.
- **This text uses 1.45% of total employee earnings.**
  - (4) Examples of calculations of Social Security and Medicare taxes – see Page 349.

### **12-3 Preparing Payroll Records**

#### IV. Payroll Register

- A. ***Payroll register – a business form used to record payroll information.***
  - B. A payroll register summarizes the payroll for one pay period and shows total earnings, payroll withholdings, and net pay of all employees.
  - C. Example of completed payroll register – see Page 351.
  - D. Steps in preparing a payroll register – see Pages 351-352.
- V. Employee Earnings Records
- A. A business must send a quarterly report to federal and state governments showing employee taxable earnings and taxes withheld from employee earnings.
  - B. Detailed information about each employee’s earnings is summarized in a single record for each employee.
  - C. ***Employee earnings record – A business form used to record details affecting payments made to an employee.***
  - D. An employee’s earnings and deductions for each pay period are summarized on one line of the employee earnings record.
  - E. A new earnings record is prepared for each employee each quarter.
  - F. Example of completed earnings record – see Page 353.
  - G. Steps in preparing an employee earnings record – see Page 354.

#### **12-4 Preparing Payroll Checks**

- VI. Payroll Bank Account
- A. Hobby Shack, like most businesses, sets up a special payroll checking account, deposits a check for the total net pay, and then writes checks to each employee on this special checking account.
  - B. A separate checking account for payroll checks helps to protect and control payroll payments.
    1. If amounts on checks are altered or unauthorized payroll checks are prepared, the amount in the special payroll account would be insufficient to cover all checks and the bank and Hobby Shack would be alerted quickly to an unauthorized payroll check.
    2. Any balance in this account will correspond to the sum of outstanding payroll checks.
    3. Steps for preparing a check for total net pay – see Pages 356.
    4. Steps for preparing an employees payroll check – see Page 357.
    5. Illustration of employee’s payroll check – see Page 357.