LIFEPAC®

Accounting

Student Book

Unit **9**

PAYROLL

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ACCOUNTING LIFEPAC 9

PAYROLL ACCOUNTING, TAXES & REPORTS

CONTENTS

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ACCOUNTING LIFEPAC 9
PAYROLL ACCOUNTING, TAXES & REPORTS

OVERVIEW

In LIFEPAC 8 you learned about various types of **payroll deduction**s, calculating employee earnings and keeping payroll records. This LIFEPAC® is designed to help you understand how to analyze, journalize and post payroll transactions. It also discusses the responsibilities of the employer to accurately report and pay the federal and state payroll taxes withheld from his employees' **wages**.

Recording the payment of the payroll involves maintaining payroll records and then recording the payroll expenses and liabilities for each **pay period**. The bookkeeper must also determine the employer's payroll tax liability and complete federal and state payroll tax reports.

OBJECTIVES

When you have completed this LIFEPAC you will be able to:

1. Recognize the accounting concepts and practices related to payroll accounts, taxes, and reports.

2. Analyze payroll transactions.

3. Journalize the payroll transactions.

4. Post the payroll transactions.

5. Describe the employer payroll taxes.

6. Record the employer payroll taxes.

7. Prepare payroll tax reports.

VOCABULARY

Employee Earnings Record – a form used to summarize payroll deductions and payments made to each individual employee.

Federal Unemployment Tax Act (FUTA) – a federal tax used for administration of state and federal unemployment programs.

Federal Insurance Contribution Act (FICA) – a law requiring employers and employees to pay taxes to the federal government to support the Social Security programs; the term "FICA" is also used to refer to the taxes themselves.

Merit Rating – a rating used to adjust an employer's state unemployment tax liability based upon a record of steady employment.

Pay Period – a period covered by a salary payment.

Payroll – all salaries and wages paid to employees.

Payroll Deductions – required and voluntary deductions from gross earnings to determine net pay.

Payroll Register – an accounting form that summarizes payroll information for all employees during a specific pay period.
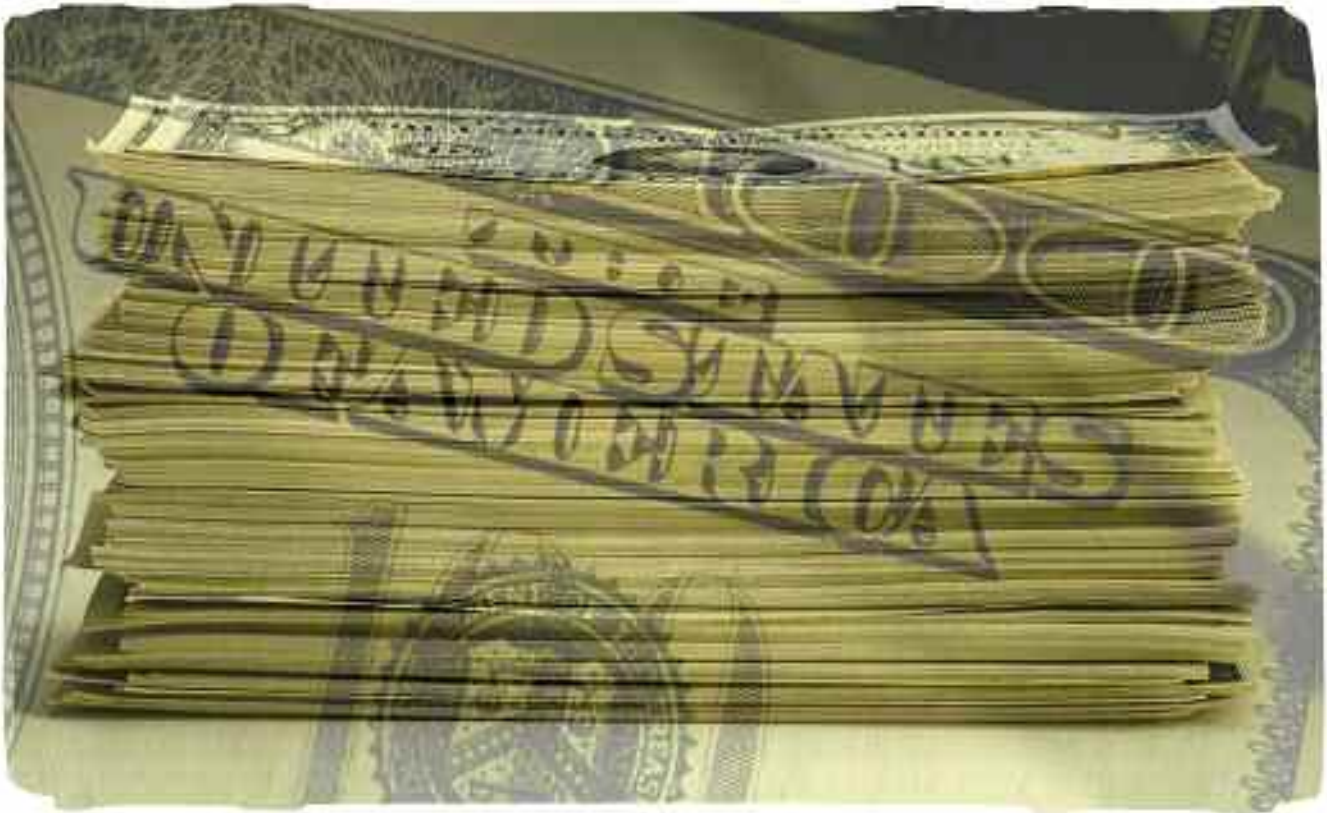
Salary – a specified amount paid to an employee per month or per year.

State Unemployment Tax – a tax imposed by a state to pay benefits to the unemployed.

Wages – payment based on an hourly rate or a piecework basis.

SECTION I. ANALYZING & RECORDING PAYROLL TRANSACTIONS

Payroll Records

Employers are required by law to keep payroll records on their employees for a period of at least four years. These payroll records should include: (1) the **salary** or **wage** amounts paid; (2) the amounts deducted from the employees' earnings; (3) the expenses involved with the payroll; and (4) the payroll taxes paid by the employer and the employees to the government. The **payroll register** that you studied in LIFEPAC 8 summarizes this payroll data for the employees of a business by itemizing their total earnings and payroll deductions.

The totals of the columns in the payroll register are also the basis for the journal entries to record the payroll. The information obtained from the register is not posted directly to the general ledger accounts, however. The payroll entry must first be recorded in the general journal and then posted to the general ledger accounts.

The additional employer's tax liabilities are also recorded in the journal. The general ledger is used to summarize total earnings and deductions for all employees. The individual employee earnings record provides a summary of each employee's earnings and deductions per pay period. Thus the payroll register and **employee earnings records** provide all the payroll information needed to prepare a payroll and payroll tax reports.

On certain dates, the employer must send the amounts withheld from employees' earnings for taxes (mandatory deductions) to the federal and state governments. Other deductions such as union dues, group health insurance and savings plans (voluntary deductions) must also be paid to their respective agencies or organizations. Until these amounts are paid, they represent liabilities.

Analyzing the Payroll Entry

The debit and credit amounts to record the payment of payroll in the journal are obtained from the column totals of the payroll register.

PAYROLL REGISTER for the Semimonthly Payroll Period Ended *December 31, 20—*

NO.	NAME	MARITAL STATUS	EXEMP.	REGULAR	OVERTIME	TOTAL	FEDERAL INCOME TAX	FICA	MEDICARE	TOTAL DEDUCTIONS	AMOUNT
				EARNINGS			DEDUCTIONS				NET PAY
3	Jones, Mildred	S	1	800 00		800 00	87 00	49 60	11 60	148 20	651 80
1	King, Mary	S	1	750 00	50 00	800 00	87 00	49 60	11 60	148 20	651 80
2	Lowe, Howard	M	2	250 00		250 00	0 00	15 50	3 63	19 13	230 87
4	Martin, John	M	1	695 00		695 00	46 00	43 09	10 08	99 17	595 83
5	Ness, Elton	S	0	185 00		185 00	11 00	11 47	2 68	25 15	159 85
	Totals			2680 00		2730 00	231 00	169 26	39 59	439 85	2290 15
						1	**2**	**3**	**4**		**5**

1. Wages and salaries are a business expense. The account that reflects this expense is Salary Expense, which has a debit balance; therefore, Salary Expense will be debited.

What does this total represent?	The salary expense for the pay period
Which account is affected?	Salary Expense
What journal entry is made?	Debit Salary Expense for $2,730.00

2. The $231.00 for federal income tax withheld becomes a liability to the business until the taxes are deposited with the federal government. Record the liability by crediting Employee Income Tax Payable. Liabilities increase on the credit side.

What does this total represent?	The amount owed to the government for income tax for the pay period
Which account is affected?	Employee Income Tax Payable
What journal entry is made?	Credit Employee Income Tax Payable for $231.00

3. The FICA tax total of $169.26 also represents a liability for the pay period. (NOTE: Some businesses show a combined withholding amount for FICA and Medicare. Others list them separately because both taxes have different bases. They are both reported, along with income tax withheld, on the same Form 941 – Employer's Quarterly Federal Tax Return.)

What does this total represent?	The amount owed to the government for employees' FICA tax for the pay period
Which account is affected?	FICA Tax Payable
What journal entry is made?	Credit FICA Tax Payable for $169.26

4. The total deduction of $39.59 for Medicare tax is a liability until the tax is deposited at the end of the quarter. Record the liability by crediting Medicare Tax Payable.

What does this total represent?	The total employees' Medicare tax for the pay period
Which account is affected?	Medicare Tax Payable
What journal entry is made?	Credit Medicare Tax Payable for $39.59

5. The business draws a check (which becomes the source document for the journal entry to record payroll) for the net pay total of $2,290.15 from the general checking account. This amount is then deposited in a special payroll account from which individual payroll checks are written. Since Cash is an asset account with a debit balance, the account decreases on the credit side.

What does this total represent?	The amount actually paid to the employees for the pay period
Which account is affected?	Cash
What journal entry is made?	Credit Cash for $2,290.15

The T accounts below illustrate at a glance how these various accounts are affected. They also show the equality of the debit and credit amounts in this transaction.

Salary Expense	
2730.00	

=

Employee Income Tax Payable			FICA Tax Payable			Medicare Tax Payable			Cash	
	231.00	+		169.26	+		39.59	+		2290.15

Journalizing the Payroll Entry

The journal entry to record the payroll for this pay period is shown below:

JOURNAL										Page 2	
Date 20—		**Account Title and Explanation**	**Doc No.**	**Post. Ref.**	**General Debit**			**General Credit**			
Dec.	31	Salary Expense			2730	00					
		Employee Income Tax Pay.						231	00		
		FICA Tax Payable						169	26		
		Medicare Tax Payable						39	59		
		Cash	Ck 120					2290	15		

Remember that Salary Expense is always debited with the amount of total earnings and Cash is always credited with the amount of net pay.

5

Posting the Payroll Entry

After the payroll has been journalized, the entry must be posted. (NOTE: Since the December 31 payroll is the second payroll for the month, the accounts will have previous balances.)

Account Title: *Cash*   **Account No.** *110*

Date 20—		Explanation	Post. Ref.	Debit		Credit		Balance Debit		Balance Credit	
Dec.	18		✔					5000	00		
	31		J2			2290	15	2709	85		

Account Title: *Employee Income Tax Payable*   **Account No.** *210*

Date 20—		Explanation	Post. Ref.	Debit		Credit		Balance Debit		Balance Credit	
Dec.	15		✔							231	00
	31		J2			231	00			462	00

Account Title: *FICA Tax Payable*   **Account No.** *220*

Date 20—		Explanation	Post. Ref.	Debit		Credit		Balance Debit		Balance Credit	
Dec.	15		✔							338	52
	31		J2			169	26			507	78

Account Title: *Medicare Tax Payable*   **Account No.** *230*

Date 20—		Explanation	Post. Ref.	Debit		Credit		Balance Debit		Balance Credit	
Dec.	15		✔							79	18
	31		J2			39	59			118	77

Account Title: *Salary Expense*   **Account No.** *570*

Date 20—		Explanation	Post. Ref.	Debit		Credit		Balance Debit		Balance Credit	
Dec.	31		J2	2730	00			2730	00		

Complete the following activity.

1.1 Use the information on the payroll register below to journalize the payroll transactions for the pay period ending January 15 of the current year, Ck 132.

PAYROLL REGISTER for the Semimonthly Payroll Period Ended _January 15, 20—_

NO.	NAME	MARITAL STATUS	EXEMP.	REGULAR	OVERTIME	TOTAL	FEDERAL INCOME TAX	FICA	MEDICARE	TOTAL DEDUCTIONS	AMOUNT
3	Bates, Mary	M	3	700 00		700 00	14 00	43 40	10 15	67 55	632 45
1	Clark, Chris	S	1	100 00		100 00	0 00	6 20	1 45	7 65	92 35
2	Jones, Harry	M	3	700 00	50 00	750 00	20 00	46 50	10 88	77 38	672 62
4	Jones, Mildred	S	1	800 00		800 00	87 00	49 60	11 60	148 20	651 80
9	King, Mary	S	1	800 00		800 00	87 00	49 60	11 60	148 20	651 80
6	Lowe, Howard	M	2	250 00		250 00	0 00	15 50	3 63	19 13	230 87
8	Martin, John	M	1	695 00		695 00	46 00	43 09	10 08	99 17	595 83
7	Ness, Elton	S	0	185 00		185 00	12 00	11 47	2 68	26 15	158 85
5	Zybrinski, Carol	S	1	600 00	22 50	622 50	60 00	38 60	9 03	107 63	514 87
	Totals			4830 00	72 50	4902 50	326 00	303 96	71 10	701 06	4201 44

JOURNAL
Page _3_

Date	Account Title and Explanation	Doc No.	Post. Ref.	General Debit	General Credit

Complete the following activity.

1.2 From the journal entry on the previous page, post the payroll transactions for the pay period ending January 15 of the current year.

Account Title: Cash   **Account No.** 110

Date 20—	Explanation	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
Jan. 1		✔	7871 00		7871 00	

Account Title: Employee Income Tax Payable   **Account No.** 210

Date 20—	Explanation	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit

Account Title: FICA Tax Payable   **Account No.** 220

Date 20—	Explanation	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit

Account Title: Medicare Tax Payable   **Account No.** 230

Date 20—	Explanation	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit

Account Title: Salary Expense   **Account No.** 570

Date 20—	Explanation	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit

SELF TEST 1

Match the following accounting terms with their definitions (each answer, 2 points).

1.01 _____ a period covered by a salary or wage payment

1.02 _____ payment based on an hourly rate or a piece-work basis

1.03 _____ required and voluntary amounts taken from gross earnings to determine net pay

1.04 _____ all salaries and wages paid to employees

1.05 _____ a tax used for administration of state and federal unemployment programs

1.06 _____ a tax used to support social security programs

1.07 _____ a form used to summarize payroll deductions and payments made to each individual employee

1.08 _____ an accounting form that summarizes payroll information for all employees during a specific pay period

1.09 _____ a specified amount paid to an employee per month or per year

a. salary

b. wage

c. employee earnings record

d. payroll register

e. FICA

f. journalizing

g. FUTA

h. payroll

i. pay period

j. payroll deductions

k. withholding allowance

Answer the following questions (each answer, 5 points).

1.010 What is included in the payroll records employers are required to keep for four years?

a. _____

b. _____

c. _____

d. _____

1.011 Why do the amounts withheld from employees' earnings become liabilities to the employer?

_____

_____

PAYROLL REGISTER for the Semimonthly Payroll Period Ended _December 31, 20—_

NO.	NAME	MARITAL STATUS	EXEMP.	REGULAR		OVERTIME		TOTAL		FEDERAL INCOME TAX		FICA		MEDICARE		TOTAL DEDUCTIONS		AMOUNT	
3	Jones, Mildred	S	1	800	00			800	00	87	00	49	60	11	60	148	20	651	80
1	King, Mary	S	1	750	00	50	00	800	00	87	00	49	60	11	60	148	20	651	80
2	Lowe, Howard	M	2	250	00			250	00	0	00	15	50	3	63	19	13	230	87
4	Martin, John	M	1	695	00			695	00	46	00	43	09	10	08	99	17	595	83
5	Ness, Elton	S	0	185	00			185	00	11	00	11	47	2	68	25	15	159	85
	Totals			2680	00			2730	00	231	00	169	26	39	59	439	85	2290	15
								1.012		**1.013**		**1.014**		**1.015**				**1.016**	

EMPLOYEE DATA | EARNINGS | DEDUCTIONS | NET PAY

Analyze the transactions to journalize the payroll entry from the payroll register shown above (each answer, 3 points).

1.012 a. What does this total represent? _____

_____

b. Which account is affected? _____

c. What journal entry is made? _____

1.013 a. What does this total represent? _____

_____

b. Which account is affected? _____

c. What journal entry is made? _____

1.014 a. What does this total represent? _____

_____

b. Which account is affected? _____

c. What journal entry is made? _____

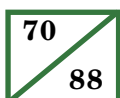1.015 a. What does this total represent? _____

_____

b. Which account is affected? _____

c. What journal entry is made? _____

1.016 a. What does this total represent? _____

_____

b. Which account is affected? _____

c. What journal entry is made? _____

70 / 88

Score _____

Adult Check _____
Initial   Date