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2000 Edition

Payroll Accounting

Bernard J. Bieg



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SOUTH-WESTERN COLLEGE PUBLISHING'S

2000 Edition

Payroll Accounting



Bernard J. Bieg
Bucks County Community College

2000



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Preface

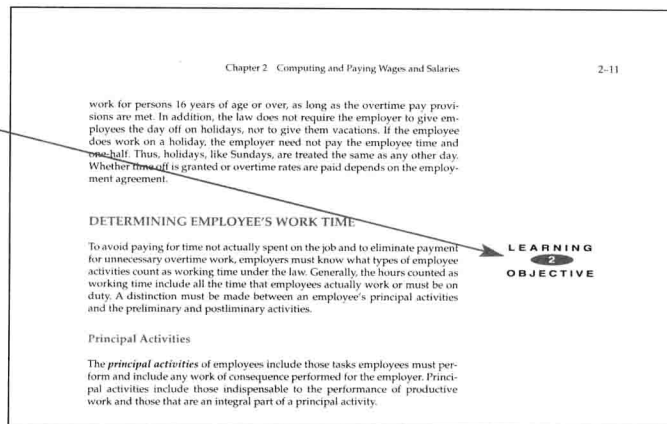
Today's payroll accountant has become a major player on a company's management team. Management's need for timely and accurate payroll cost data as a part of the total planning step has moved payroll from a disbursement and recording function to an integral part of the management process.

At the federal, state, and local levels, frequent changes are made in the laws that affect the paying of employees, and the payments made to and the forms sent to the taxing authorities. Consequently, the job of a payroll accountant requires constant updating so that the payroll system remains accurate, reliable, and timely. *Payroll Accounting* has established a record of being the most thorough book on the market. Each edition has been updated with the most current information available.

In this text, students are exposed to the tax rules, tax rates, and the tax reports that form the core of a payroll accountant's responsibilities. Besides numerous examples, diagrams, and completed forms that smooth the learning process, the Payroll Project at the end of the book (Chapter 7) helps students apply knowledge acquired in previous chapters to practical payroll situations. This project is, in many respects, a culmination of the information presented in *Payroll Accounting*.

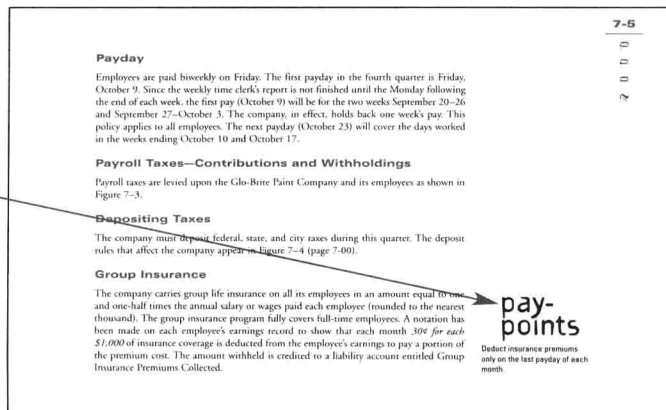
The 2000 edition of *Payroll Accounting* continues to provide the most user-friendly payroll accounting coverage in the marketplace. A number of features in this textbook are specifically directed to the students during their learning cycle, as illustrated here.

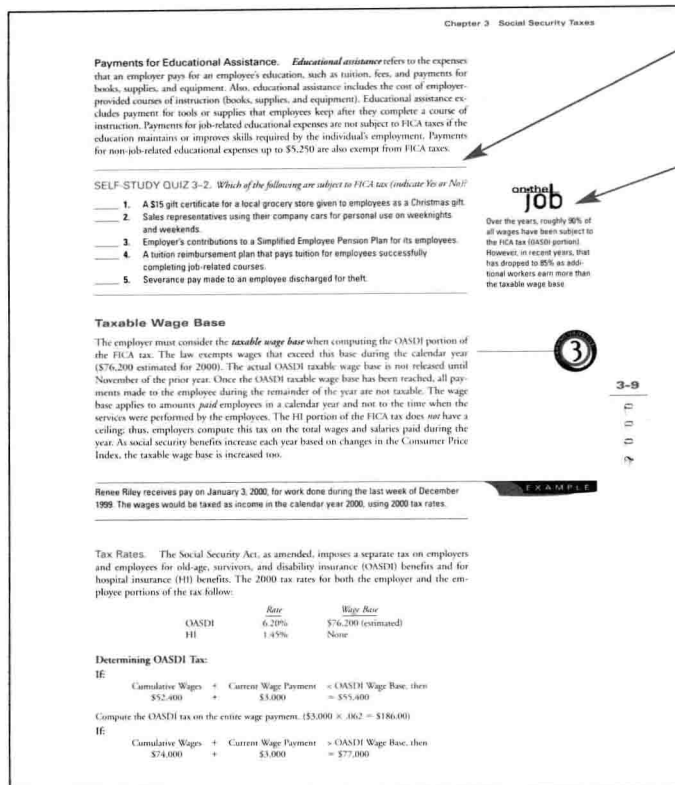
Learning objectives are enumerated at the beginning of each chapter and the numbers repeated next to the start of the applicable text coverage.



pay-points

Pay-points are used throughout Chapter 7 to bring attention to areas where students commonly make mistakes.





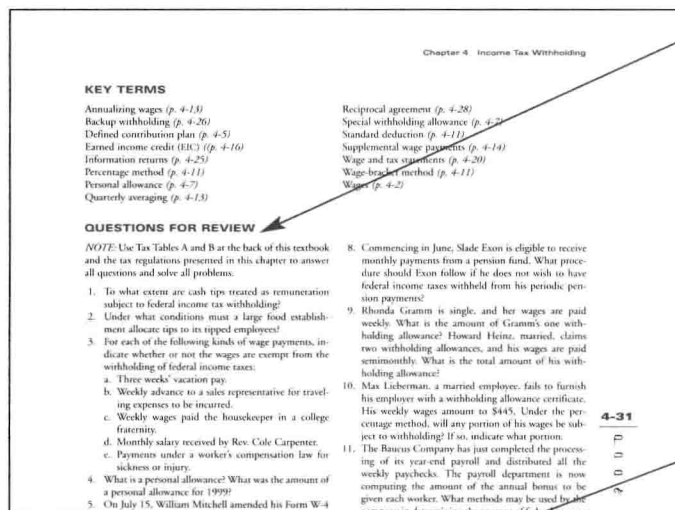
Self-study quizzes appear throughout each chapter and test the understanding of major concepts.

Use of marginal icons ("On the Net," "News Alert," "IRS Connection," and "On the Job") have integrated the real world uses of this facts-intensive area of study. "On the Net" icons allow optional integration of Internet research sites for students, like the example that follows:

on the net

<http://www.dol.gov/dol/esa/>
U.S. Department of Labor
Employment Standards
Administration homepage. This site contains various codes sections, such as affirmative action and workers compensation. To find the most useful information, choose the ESA Program that interests you, and then choose the "Statutory and Regulatory" option.

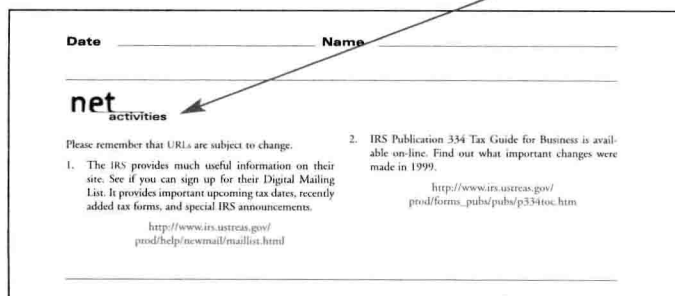
The icons in the chapter highlight the most current forms, instructions, and wage and tax laws available.



Thorough end-of-chapter materials include review questions, discussion questions, practical problems, and case problems.

net activities

Net activities are included at the end of each chapter. Students will gain valuable knowledge on how to use the Internet to research payroll-related information.



The Continuing Payroll Problem found at the end of each chapter solidifies students' understanding of chapter concepts and enables them to prepare a payroll using a step-by-step approach.

CONTINUING PAYROLL PROBLEM

Refer to the partially completed payroll register that you worked on at the end of Chapter 4. You will now compute the employer's liability for unemployment taxes (FUTA and SUTA) for the pay of January 14. These computations will be used at the end of Chapter 6 in recording the payroll tax entries.

To compute the employer's liability for unemployment taxes, proceed as follows:

1. Enter each employee's gross earnings in the Taxable Earnings—FUTA and SUTA columns.
2. Total the Taxable Earnings—FUTA and SUTA columns.

3. At the bottom of your payroll register, compute the following for the total payroll:

- a. Net FUTA tax. Since this is the first pay period of the year, none of the employees are near the \$7,000 ceiling; therefore, each employee's gross earnings is subject to the FUTA tax.
- b. SUTA tax. Since the Steiner Company is a new employer, Pennsylvania has assigned the company a contribution rate of 3.5% on the first \$8,000 of each employee's earnings.

NOTE: Retain your partially completed payroll register for use at the end of Chapter 6.

CASE PROBLEM

C1. Reducing a High Unemployment Tax Rate.

Over the past two years, Kermit Stone, the controller of Hilton Company, has been concerned that the company has been paying a large amount of money for state unemployment taxes. On reviewing the "unemployment file" with the head accountant, Deborah Murtha, he learns that the company's tax rate is near the top of the range of the state's experience-rating system.

After calling the local unemployment office, Stone realizes that the turnover of employees at Hilton Company has had an adverse effect on the company's tax rates. In addition, after consulting with Murtha, he discovers that the eligibility reports that come from the state unemployment office are just signed and sent back to the state without any review.

The eligibility reports are notices that an ex-employee has filed a claim for unemployment benefits. By signing these reports "blindly," the company, in effect, tells the state that the employee is eligible for the benefits. Any benefits paid are charged by the state against Hilton Company's account.

Stone is convinced that the rates the company is paying are too high, and he feels that part of the reason is the "blind" signing of the eligibility reports. Besides this, he wonders what other steps the company can take to lower its contributions rate and taxes.

Submit recommendations that might help Stone reduce the "unfair" burden that the unemployment compensation taxes are leveling on Hilton Company.

net activities

Please remember that URLs are subject to change.

1. As a payroll practitioner, you will need the latest payroll information. Check out this site and find all the federal rates, then try to find the link to your state's taxation department.

<http://www.payroll-taxes.com/>

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The final payroll project can be completed manually (Chapter 7) or by using the computer (Appendix A). Payroll disks, now in Windows, are free with the purchase of the text. Inspector disks, which facilitate grading of the payroll project, are free to instructors.

Appendix A Computerized Payroll Accounting

- Step 4: Display the payroll report.
- Step 5: Generate and post the journal entry for the current payroll.
- Step 6: Generate and post the journal entry for the employer's payroll taxes.
- Step 7: Enter and post the November 13 general journal entry to record the deposit of cash for the total net amount of Ruth Williams' pay in the payroll cash account.
- Step 8: Display the journal report for 11/07—through 11/13—.
- Step 9: Display the general ledger report.
- Step 10: Use the Save As command to save the November 13 payroll to disk with a file name of XXX11-13 (where XXX are your initials, and 11-13 represents month 11, day 13).
- Step 11: Proceed to the November 20 payroll. If necessary, end your payroll session.

NOVEMBER 20 PAYROLL

The step-by-step instructions for completing the November 20 payroll (for the period ending November 14) follow.

- Step 1: Answer the questions for the November 20 payroll on the Student Project Audit Test as you complete processing for the pay period.
- Step 2: If you quit the software after processing the previous pay period, perform the following steps:
 - a. Start up the Payroll Accounting software.
 - b. Load your file containing the last pay period data (XXX11-13).
- Step 3: Enter and post the following transactions:
 - November 16: deposited with the City Bank, the amount of FICA taxes and federal income taxes for the October payrolls.
 - Hint:** Display the general ledger report to obtain these amounts from the FICA Taxes Payable—OASDI, FICA Taxes Payable—HI, and the Employees FTT Payable account balances.
 - November 16: deposited the City of Philadelphia employees withheld income tax (\$1,321.64) with the Department of Revenue for the October payrolls (see the Employees CIT Payable account balance in the general ledger report).
 - November 18: deposited the Pennsylvania state income taxes withheld from the November 6 and 13 (Ruth V. Williams) payrolls.
- Step 4: Enter the following employee maintenance:
 - Add new employee: Employee number 200; WOODS, Beth Anne; 8102 Franklin Court, Philadelphia, PA 19105-0915; social security number, 724-03-1587; single; salary, \$1,200.00; number of pay periods per year, 26; withholding allowances, 1; Account No. 52 (Office Salary).
- Step 5: Enter the following payroll transactions. (Do deduct Group Ins.—do deduct Union Dues for the appropriate employees.) Verify that Group Insurance is deducted and that Union Dues are deducted for the appropriate employees.

EMPLOYEES TO BE PAID THIS PAY PERIOD:

Employee Number	Employee Name	Salary/Reg. Hrs.	Overtime @ Time ½	Overtime @ Double	Group Ins.	Union Dues
100	Bono, Anthony Victor	64			\$16.50	\$8.00
110	Ferguson, James Claude	reg. salary			\$26.40	
120	Ford, Catherine Louise	reg. salary			\$10.50	
130	Mann, Dorey Wilson	reg. salary			\$15.90	
140	O'Neill, Joseph Tyler	reg. salary			\$27.00	
150	Russell, Virginia Aloise	\$672.94 (loss of 2 hours)			\$8.10	
160	Ryan, Norman Allen	80			\$16.80	\$8.00
170	Sokolowski, Thomas James	reg. salary			\$24.00	
180	Student (your name)	reg. salary			\$6.50	

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GOALS OF PAYROLL ACCOUNTING

1. To develop an understanding of the personnel and payroll records that provide the information required under the numerous laws affecting the operations of a payroll system.
2. To describe the payroll-record life of employees from their initial applications for employment to their applications for their first social security benefit checks.
3. To introduce the various aspects of the Fair Labor Standards Act and the other laws that affect payroll operations and employment practices.
4. To describe the basic payroll accounting systems and procedures used in computing wages and salaries and the timekeeping methods used to record time worked.
5. To explain the various phases of the Social Security Act, the federal income tax withholding law, and other laws relating to the payment of wages and salaries.
6. To provide practice in all payroll operations, the preparation of payroll registers, the recording of accounting entries involving payroll, and the preparation of payroll tax returns required of businesses.
7. To complete a payroll project manually or with a microcomputer. Students can use the diskette package to update employee files, to complete payroll reports, and to display quarterly reports and W-2 forms.

ACKNOWLEDGMENTS

My sincere appreciation is due to the many instructors and students who have contributed suggestions to make the textbook more interesting, understandable, and practical to those who pursue the study of payroll accounting.

As a result of their very helpful recommendations, the textbook will better satisfy the learning needs of students and the teaching needs of instructors. Prior reviewers of the textbook include:

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**As we
go to
press . . .**

Chapter 3 FICA Taxable Wages

In this textbook an estimated taxable base of \$76,200 for the year 2000 was used for the OASDI part of FICA taxes. As we go to press the actual taxable base for the year 2000 has not been released.



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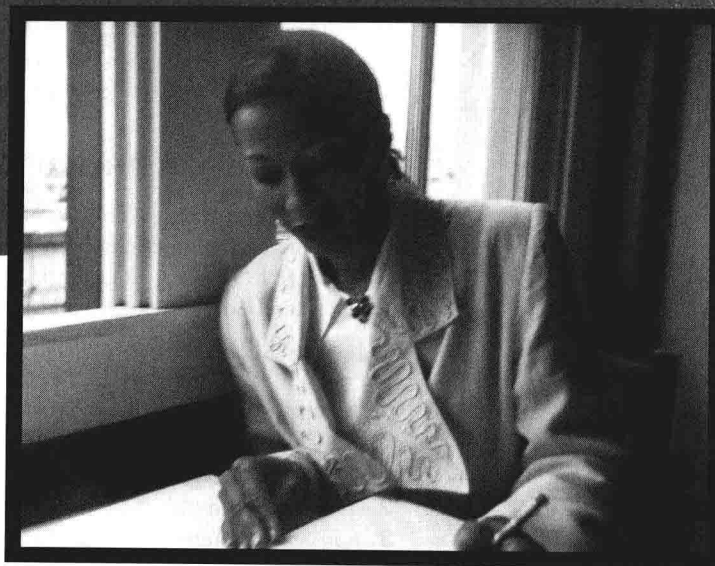
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LEARNING OBJECTIVES



After studying this chapter, you should be able to:

1. Identify the various laws that affect employers in their payroll operations.
2. Explain the record keeping requirements of these laws.
3. Explain the importance of a thorough recordkeeping system.
4. Describe the employment procedures generally followed in a Human Resources Department.
5. Recognize the various personnel records used by businesses and know the type of information shown on each form.
6. Describe the procedures employed in typical payroll accounting system.
7. Identify the *payroll register* and the *employee's earnings record*.

Payroll professionals are responsible for issuing over four billion paychecks each year to over a hundred million people in the workforce of the United States. The processing of payrolls allows no margin for error. Employees, employers, and government agencies monitor the work performed by payroll professionals. A payroll accounting system is the only operation in a business that is almost completely governed by various federal, state, and local laws and regulations. Rules establish who is an employee, what is time worked, when overtime is to be paid, what deductions are made, when to pay an employee, and when taxes are paid. Lack of compliance with these laws and regulations can result in both fines and back-pay awards.

With each new year, payroll administrators must keep abreast of the changes in legislation that affect their firms' payroll recordkeeping. An understanding of the various laws affecting payroll operations helps you know the required payroll and personnel records and procedures. This chapter briefly examines the various laws that affect employers in their payroll operations and the payroll and personnel records that they use to meet the requirements of the laws. First, however, let's take a brief look at payroll accounting as a profession.

THE PAYROLL PROFESSION

With the increased responsibilities of payroll specialists, the profession has seen a significant increase in salary compensation. In a survey done by the job placement agency, Accountants on Call, the 1998 salary range for payroll clerks was \$20,000 to \$30,000, while payroll managers earned between \$30,000 and \$57,000. Typically, an entry-level payroll clerk collects, reviews, approves, and records time records. Also, the clerk updates attendance records, including vacation, sick, and personal days. Once a payroll is processed, the clerk reviews the information to ensure the accuracy of each employee's paycheck. Subsequent job responsibilities will include entering the following information into the payroll system:

1. Time-worked data.
2. Pay rate changes.
3. Tax rate changes.
4. Employee authorized payroll deductions.
5. New employee information.
6. Marital and employee allowance changes.

Providing information to the Finance Department concerning the amounts to be paid for taxes, health insurance premiums, retirement plans, etc., may also be part of the evolving duties of the advancing payroll professional. One of the final stages involves the completion of payroll tax returns, employee information returns, federal and state census returns, and fringe benefit and welfare plan returns.

Payroll professionals must keep abreast of the changes in their field so that they can remain technically proficient. This need has spurred the development of an association of payroll practitioners—the American Payroll Association (APA). Membership in the association is open to anyone interested in or engaged in the support of payroll accounting. The APA offers professional training seminars and various publications to its members. In addition, each year the APA administers an examination for the payroll accountant and awards a certificate to those who pass the exam (Certified Payroll Professional). This testing and certification process has helped the payroll profession to gain recognition in the business community. The APA has also established guidelines for the conduct of the payroll professional. This "Code of Ethics," shown in Figure 1-1, sets the direction for the profession.¹

One of a number of publications designed to provide current information to the practitioner is published by the Research Institute of America, Inc. This biweekly issue is entitled *Payroll Guide*, and it is a comprehensive review of changes in regulations affecting payroll reporting.²

1 For more information on the organization, write to: American Payroll Association, New York Educational Division, 30 E. 33rd Street, New York, NY 10016-5386; Tel: 212-686-2030

2 *Payroll Guide* is published by the Research Institute of America Group, 90 Fifth Avenue, New York, NY 10011; Tel: 1-800-431-9025.

FIGURE 1-1*APA Code of Ethics*

1. To be mindful of the personal aspect of the payroll relationship between employer and employee, and to ensure that harmony is maintained through constant concern for the Payroll Professional's fellow employees.
2. To strive for perfect accuracy and timeliness of all payroll activities.
3. To keep abreast of the state of the payroll art with regard to developments in payroll technologies.
4. To be current with legislative developments, actions on the part of regulatory bodies, and the like, in so far as they affect payroll.
5. To maintain the absolute confidentiality of the payroll, within the procedures of the employer.
6. To refrain from using Association activities for one's personal self-interest or financial gain.
7. To take as one's commitment the enhancement of one's professional abilities through the resources of the American Payroll Association.
8. To support one's fellow Payroll Professionals, both within and outside one's organization.

FAIR LABOR STANDARDS ACT

In the processing of payrolls, the first step is to determine gross pay. The Fair Labor Standards Act (FLSA) of 1938 affects this calculation. Commonly referred to as the Federal Wage and Hour Law, this law sets up minimum wage (currently \$5.15 per hour) and overtime pay requirements. Other provisions of this law concern equal pay for equal work regardless of sex, restrictions upon the employment of child labor, public service contracts, and wage garnishment. These basic provisions apply to employers engaged in interstate commerce or in the production of goods and services for interstate commerce and to employees in certain enterprises which are so engaged, unless specifically exempted. The FLSA also imposes recordkeeping requirements on employers but prescribes no specific form of record. Figure 1-2 shows the basic requirements imposed on the employer concerning payroll and personnel records.

All employers must keep records explaining the basis of wage differentials paid to employees of opposite sex for equal work performed in the same establishment. Such records include those relating to job evaluations, job descriptions, merit systems, seniority systems, and union contracts. The employer also must display a poster, available from the regional office of the Wage and Hour Division, that informs employees of their minimum wage, equal pay, overtime pay, and wage-collection rights, as well as child-labor restrictions. Chapter 2 presents a detailed discussion of this act and the standards established.

STATE MINIMUM WAGE AND MAXIMUM HOURS LAWS

Most states have established minimum wage rates for covered employees, either by legislation or by administrative order of the legislature whereby minimum wage rates are fixed for specific industries. As noted earlier, the Fair Labor Standards Act, a federal law, also applies minimum wage and maximum hour provisions to employers. Where both federal and state regulations cover the same employee, the higher of the two rates prevails. For example, the minimum hourly wage in Alaska is \$5.65, or 50¢ greater than the federal minimum wage. All workers covered by that state's legislation would receive the higher state rate.

Payroll managers must be familiar with the administrative orders of their particular state, since the wage orders not only set minimum wages but also contain provisions affecting pay periods, pay for call-in time and waiting time, rest and meal periods, absences, meals and lodging, tips, uniforms, and other matters dealing with wages and hours. The state wage



FIGURE 1-2

Summary of Information Required by Major Federal Payroll Laws

		Fair Labor Standards Act	Social Security	Income Tax Withholding	Unemployment Tax
EMPLOYEE DATA	Item				
	Name	Yes	Yes	Yes	Yes
	Address	Yes	Yes	Yes	Yes
	Sex	Yes	....	....	....
	Date of birth	Yes	....	....	....
	Social Security Number	Yes	Yes	Yes	Yes
	Withholding allowances claimed	....	....	Yes	....
	Occupation	Yes	Yes	Yes	Yes
	Period employed	....	Yes	Yes	Yes
EMPLOYMENT DATA	State where services rendered	....	Yes	....	Yes
	Day and time of day when workweek begins	Yes	....	....	....
	Regular hourly rate of pay	Yes	....	....	....
	Basis of wage payments; e.g., \$5.15 per hour; \$41.20 per day	Yes	....	....	....
	Hours worked each day	Yes	....	....	....
	Hours worked each week	Yes	....	....	....
	Daily or weekly straight-time pay, exclusive of overtime pay	Yes	....	....	....
	Amount and nature of exempt pay	Yes	....	....	....
	Weekly overtime pay	Yes	....	....	....
	Total additions to or deductions from wages	Yes	....	....	....
	Total remuneration for payroll period	Yes	Yes	Yes	....
	Total remuneration for calendar year	....	Yes	....	Yes
	Date of payment	Yes	Yes	Yes	Yes
	Payroll period	Yes	Yes	Yes	Yes
TAX DATA	Employee's wages subject to tax for payroll period	....	Yes	Yes	....
	Employee's wages subject to tax for calendar year	....	Yes	....	Yes
	Taxable remuneration—if different from total remuneration, reason for difference	....	Yes	Yes	Yes
	Tax deductions from employee's wages	....	Yes	Yes	Yes
	Date tax collected if other than date of payment	....	Yes	Yes	....
	Tax paid by employer but not deducted from employee's wages	....	Yes	Yes	Yes
GEN'L	Specific form of records	No	No	No	No
	No. of years records must be kept	2-3	4	4	4