

## SOLUTIONS

## Learning Goal 20

## Multiple Choice

1. d  $(40 \text{ hours} \times \$20 = \$800) + (6 \text{ hours} \times \$30 = \$180)$
2. d
3. a Human resource activities include authorizing employees, terminating employees, setting pay rates, and setting withholding allowances. The departments that calculate the payroll or distribute checks should never do this.
4. c Check distribution should be separated from personnel, payroll, and direct supervisory functions.
5. d Both FUTA and SUTA are only employer expenses, and are never paid by employees.
6. b Joe claims one exemption for himself, one for his wife, and one for each child. However, he may claim more exemptions if he has other losses on his income tax return that create constant refunds.
7. c This is either “reasonably possible” or “remote,” but unlikely to be “probable.”
8. b Payroll tax is only calculated on the amount of the wage base for the year. At the point at which the next dollar of gross pay exceeds the wage base limit, no further tax is due.
9. c
10. c
11. d
12. c Salaries and Wages expense should always be accrued. It is also technically good practice to accrue employer payroll taxes because they are expenses that are created as wage expense is created, even though the obligation for payment does not exist until the payroll is paid. Benefit expenses should also be accrued.
13. d “Consultant” refers to an independent business, not an employee.
14. a
15. c
16. b  $\$180/5 = \$36$  overtime rate;  $\$36/1.5 = \$24$  regular pay rate;  $40 \text{ hours} \times \$24 = \$960$ .
17. d The OASDI part is 6.2% up to an annual maximum that normally increases each year. In this text we approximate the current base amount at \$120,000. The Medicare part is 1.45% on all gross wages. Therefore, the total for the year is  $(\$120,000 \times .062) + (\$125,000 \times .0145) = \$9,252.50$ .
18. c The supervisor potentially could submit time cards for fictitious employees and cash the checks.

SOLUTIONS

Learning Goal 20, continued

Discussion Questions and Brief Exercises

1.  
a. Journal entry: A journal entry is not necessary.

Long-Term Note Payable	85,000	
Current Portion of Long-Term Debt		85,000

Balance sheet:

Current liabilities	
Current portion of long-term debt	\$85,000
Long-term liabilities	
Long-term note payable less \$85,000 current portion of long-term debt	315,000

- b.
- Assets received but not yet paid for: purchase supplies on account
  - Accrued expense: interest payable
  - Advance payment from customer: unearned revenue
  - Loans payable within a year: two examples—a six-month loan, or the current portion of long-term debt
2. \$100. Anne-Marie has 4 exemptions and the \$1,600 is in the bracket of *at least* \$1,600 but less than \$1,620.
3. An employee is an individual who performs services for a business when the business controls (1) what will be done and (2) how it will be done. An independent contractor is an individual who is in business to offer services to the public and who is in full control of the way in which the services are performed. An employee classification results in tax withholding and payroll tax.
4. Form W-2 is an annual document from an employer that reports an employee's gross pay, taxable gross pay, and withholding items for a calendar year. (Other items may also be reported on the W-2 such as employer reimbursements and retirement plan contributions.) Form W-4 is used by the employer to determine employee filing status (married, single, etc.) and the number of withholding allowances claimed by the employee. A W-4 is submitted by an individual at the time that individual is hired as an employee.
5. An employee earnings record is a legally required record of an employee's gross pay, withholding, and net pay that must be maintained by an employer for each employee. The earnings record is necessary because it shows for each employee the gross wages, withholding, and net pay for each pay period, as well as the year-to-date cumulative amount. The primary use of the employee earnings record is as the source of the information that is entered on form W-2. The cumulative information is also useful for indicating when wage base limits are reached.
6. FICA is an acronym that stands for Federal Insurance Contribution Act. This is the law that created the Social Security system. FICA imposes a tax that consists of two parts. The first part is OASDI (Old Age and Survivor's Disability Insurance). The second part is Medicare, added in 1965, which provides a minimum level of medical insurance coverage. OASDI tax is calculated as a percentage of gross wages up to maximum gross wage amount, referred to as the *wage base*. The Medicare tax is a percentage of all gross wages. In this text, we use 7.65% on a wage base of \$120,000 for OASDI and 1.45% on all wages for Medicare. FICA is paid by employees, and then an equal amount is matched by the employer.

## SOLUTIONS

## Learning Goal 20, continued

7. FUTA is an acronym for “Federal Unemployment Tax Act,” and SUTA is an acronym for “State Unemployment Tax Act.” These are programs that provide temporary income to unemployed workers. FUTA and SUTA are taxes that are imposed only upon employers, and not on employees. The FUTA rate is 6.%; however, a credit of up to 5.4% is allowed to states that impose state unemployment taxes.
8. Federal and state income tax withholding are not employer expenses. The employer is simply holding back some of the employee pay that the employee will need to pay income taxes. Soon after the end of the payroll period the employer transfers the withheld amounts to the federal and state taxing authorities.
9. Average daily pay  $\$170 \times 30 \text{ employees} \times 1.5 \text{ days per employee} = \$7,650$ .

Vacation Pay Expense	7,650	
Vacation Pay Liability		7,650

10. A payroll register is used to record all the wages and withholding for each payroll period. It is often the source of the journal entry for that period's payroll. It is also the source of the information that flows into the each employee's earnings record. An employee earnings record is a legally required permanent record maintained for each employee. (See 5 above.)
11. Internal control for payroll:
  - Separation of duties: The payroll calculations are prepared by people who do not work in the Human Resources (Personnel) Department and who do not distribute paychecks or have access to cash.
  - Time cards: Time cards are maintained to record the hours worked. Time card use is supervised and checked for accuracy.
  - Double check: Payroll calculations are independently checked for accuracy by another person in the payroll or accounting department. If a computer is used for calculations, calculations are randomly sampled and verified.
  - Paycheck distribution controls: Paychecks are not distributed by immediate supervisors, and a photo ID is required to obtain a paycheck or a paycheck is sent directly to an employee.
  - Other payment controls: Payroll bank accounts, independent payroll services, and use of voucher system.
12. Wrong. The SUTA tax (and other payroll taxes) should be calculated on the amount of *current gross pay* that does not exceed the wage base limit. Because January is the first month of the year, we can safely assume that Dave's cumulative gross pay is the same as his January gross pay, which is \$4,500 and which does not exceed the SUTA limit of \$7,000. Therefore, the SUTA tax should be calculated on the full \$4,500:  $\$4,500 \times .054 = \$243$ .
13. FLSA refers to the Fair Labor Standards Act, which is a federal law. This law affects many aspects of employment, especially working conditions and pay rates. In particular, the FLSA sets the minimum hourly wage. It also sets the number of hours an employee works to be paid overtime as well as the minimum overtime rate of pay.
14. Gross pay:  $(\$20 \times 40 \text{ hours}) + (8 \text{ hours} \times \$30) = \$1,040$ . Net pay:  $\$1,040 - \$220 \text{ income tax} - (\$1,040 \times .0765 \text{ FICA}) = \$740.44$ .
15. First, an employer pays gross wages to employees. Second, an employer pays payroll taxes (FICA, FUTA, SUTA, and sometimes additional state and local taxes). Third, many employers also pay employee benefits such as medical insurance and retirement plan payments.
16. Identify employees, calculate the payroll, record the payroll, make payments, submit forms and reports.

**SOLUTIONS****Learning Goal 20, continued**

17. FICA,  $\$30,000 \times .0765 = \$2,295$ ; SUTA,  $\$30,000 \times .054 = \$1,620$ ; FUTA,  $\$30,000 \times .006 = \$180$ .

Payroll Tax Expense	4,095	
FICA Payable		2,295
SUTA Payable		1,620
FUTA Payable		180

18.

Salary Expense	124,000	
Federal Income Tax Payable		32,000
State Income Tax Payable		6,500
FICA Payable		9,238
Medical Insurance Payable		1,800
Salary Payable		74,462
Benefits Expense	1,800	
Payroll Tax Expense	9,658	
FICA Payable		9,238
SUTA Payable		378
FUTA Payable		42
Medical Insurance Payable		1,800

*Calculations:*

FICA:  $(\$120,000 \times .0765) + (\$4,000 \times .0145) = \$9,238$

SUTA:  $\$7,000 \times .054 = \$378$

FUTA:  $\$7,000 \times .006 = \$42$

Medical insurance: The employer pays 50%, so that would equal the amount of medical insurance withholding from the employee.

**LG 20-1.**

a.

Item c:  $\$30,000 + \$18,000 = \$48,000$

Item f:  $\$48,000 \times .0765 = \$3,672$  (Note: The problem does not indicate that any payroll tax wage base limits have been exceeded. This is because it is January, and it is the first payroll month.)

Item h:  $\$48,000 - \$6,800 - \$900 - \$3,672 - \$1,000 = \$35,628$

Item i:  $\$48,000 \times .054 = \$2,592$

Item j:  $\$48,000 \times .006 = \$288$

Item m:  $\$3,672 + \$2,592 + \$288 + \$2,500 + \$750 = \$9,802$  (Employer matches employee FICA.)

**SOLUTIONS****Learning Goal 20, continued****LG 20-1, continued**

b.

August 31	Wages Expense	48,000	
	Federal Income Tax Payable		6,800
	State Income Tax Payable		900
	FICA Payable		3,672
	Charitable Contributions Payable		1,000
	Wages Payable		35,628
	Payroll Tax Expense	6,552	
	FICA Payable		3,672
	SUTA Payable		2,592
	FUTA Payable		288
	Employee Benefits Expense	2,500	
	Pension Plan Expense	750	
	Benefits and Pension Plan Payable		3,250

**LG 20-2.**

August 31	Wages Expense	70,000	
	Federal Income Tax Payable		9,800
	State Income Tax Payable		2,870
	FICA Payable		5,107
	Union Dues Payable		220
	Wages Payable		52,003
	Payroll Tax Expense	6,007	
	FICA Payable		5,107
	SUTA Payable		810
	FUTA Payable		90
	Employee Benefits Expense	2,400	
	Pension Plan Expense	2,450	
	Benefits and Pension Plan Payable		4,850

SOLUTIONS

Learning Goal 20, continued

LG 20-3.

a.

Evelyn		Sue	
<b>Step 1:</b>		<b>Step 1:</b>	
Wage Base	\$ 120,000	Wage Base	\$ 120,000
Cumulative gross pay	121,250	Cumulative gross pay	96,900
Cumulative excess non-taxable	<u>(1,250)</u>	No cumulative excess – go to step 3	<u>\$23,100</u>
<b>Step 2:</b>		<b>Step 2:</b>	
Current gross pay	\$4,750	-----	
Excess	<u>(1,250)</u>		
Current taxable	<u>\$3,500</u>		
<b>Step 3:</b>		<b>Step 3:</b>	
OASDI: $\$3,500 \times .062$	\$217.00	Current FICA tax:	
Medicare: $\$4,750 \times .0145$	68.88	$\$2,800 \times .0765$	<u>\$214.20</u>
Current FICA tax	<u>\$285.88</u>		

b.

OASDI: $\$120,000 \times .062$	\$7,440.00	Current FICA tax:	
Medicare: $\$121,250 \times .0145$	1,758.13	$\$96,900 \times .0765$	<u>\$7,412.85</u>
Current FICA tax	<u>\$9,198.13</u>		

LG 20-4.

a. Kenai Company

Oct. 12	Wages Expense	6,350.00	
	Federal Income Tax Payable		1,427.00
	FICA Payable		386.58
	Wages Payable		4,536.42
	Payroll Tax Expense	434.58	
	FICA Payable		386.58
	SUTA Payable		43.20
	FUTA Payable		4.80

**SOLUTIONS****Learning Goal 20, continued****LG 20-4, continued***Calculations:*

- Gross wages: Chignik has earned 4 hours of overtime. Chignik's overtime rate is  $\$25 \times 1.5 = \$37.50$ . Therefore, Chignik's gross wages are  $(40 \text{ hours} \times \$25) + (4 \text{ hours} \times \$37.5) = \$1,150$ . None of the other employees have overtime, so the total gross wages are  $\$1,200 + \$1,150 + \$1,600 + \$2,400 = \$6,350$ .
- FICA: This is 7.65% times the gross wages of all the employees except Sagamore. Only \$800 of Sagamore's current earnings are subject to the 6.2% OASDI tax ( $\$120,000$  wage base –  $\$119,200$ ). All of Sagamore's earnings are subject to the 1.45% Medicare tax. Therefore,  $(\$800 \times .062) + (\$2,400 \times .0145) = \$84.40$  total for Sagamore. For all of the other employees, the calculation is:  $\$3,950 \times .0765 = \$302.18$ .
- SUTA: All the employees have exceed the \$7,000 SUTA wage base except Peters. \$800 of Peters' gross wages are subject to SUTA tax:  $\$800 \times .054 = \$43.20$ .
- FUTA: All the employees have exceed the \$7,000 FUTA wage base except Peters. \$800 of Peters' gross wages are subject to FUTA tax:  $\$800 \times .006 = \$4.80$ .

## b. Talkeetna Company

Oct. 31	Wages Expense	4,060.00	
	Wages Payable		4,060.00
	Payroll Tax Expense	191.63	
	FICA Payable		156.83
	SUTA Payable		31.32
	FUTA Payable		3.48

*Calculations:*

- Gross wages: For the hourly employees the gross wage are  $(24 \text{ hours} \times \$20) + (24 \text{ hours} \times \$45) + (20 \text{ hours} \times \$35) = \$2,260$ . For Tok, the weekly salary is prorated for three days:  $\$3,000/5 = \$600$  per day. For three days:  $3 \times \$600 = \$1,800$ . Total for all employees:  $\$2,260 + \$1,800 = \$4,060$ .
- FICA: The current gross pay of Abrams and Wenham are fully taxable for FICA because the cumulative wages are less than the \$120,000 tax base. For Cantwell, \$400 of the current wages are subject to the OASDI tax base ( $\$120,000 - \$119,600$ ), and all of the current earnings are subject to Medicare tax. Tok has exceeded the OASDI tax base, so the current gross earnings are subject only to Medicare tax.  
Abrams and Wenham:  $\$1,180 \times .0765 = \$90.27$   
Cantwell:  $(\$400 \times .062) + (\$1,080 \times .0145) = \$40.46$   
Tok:  $\$1,800 \times .0145 = \$26.10$
- SUTA: The full \$480 of Abram's current gross wages are taxable for SUTA, and \$100 of Wenham's wages are taxable for SUTA ( $\$7,000 - \$6,900$ ). SUTA tax is  $\$580 \times .054 = \$31.32$ .
- FUTA: The full \$480 of Abram's current gross wages are taxable for FUTA, and \$100 of Wenham's wages are taxable for FUTA ( $\$7,000 - \$6,900$ ). FUTA tax is  $\$580 \times .006 = \$3.48$ .

*Comment:* Notice that because the accounting period has ended, the wages expense and the payroll tax expense must be accrued. However, because the payroll period will not end until Friday, it is not necessary to calculate the employee withholding until Friday, when the total wages for the payroll period will be known.

**SOLUTIONS****Learning Goal 20, continued****LG 20-5.**

- a. Current liability (an accrued expense)
- b. Not a liability. Employee withholding is not a liability until the employees are paid (end of payroll period).
- c. Current liability
- d. Current liability and/or long-term liability depending on terms of warranty (an accrued expense that can be reasonably estimated)
- e. Current liability (unearned revenue)
- f. Not a recordable liability; possibility is remote
- g. Current liability
- h. Long-term liability
- i. Not a recordable liability; probably should be disclosed in footnotes as reasonably possible
- j. Current liability (unearned revenue)
- k. Current liability (an accrued expense)
- l. Current liability (an accrued expense that can be reasonably estimated)
- m. Current liability (an accrued expense that can be reasonably estimated)

**LG 20-6.**

Cumulative Gross Pay Through November 30	Current Gross Pay: December	Cumulative Gross Pay Year to Date	Current Gross Pay Subject to OASDI Tax	Current Gross Pay Subject to Medicare Tax	December OASDI Withheld	December Medicare Withheld
\$44,300	\$3,750	\$48,050	\$3,750	\$3,750	\$232.50	\$54.38
\$114,150	\$7,200	\$95,350	\$5,850	\$7,200	\$362.70	\$104.40
\$120,700	\$3,550	\$124,250	–0–	\$3,550	–0–	\$51.47
\$117,900	\$5,200	\$123,500	\$2,100	\$5,200	\$130.20	\$75.40

**LG 20-7.**

May 15	Sales Salaries Expense	5,150	
	Office Wages Expense	3,330	
	Federal Income Tax Payable		1,400
	State Income Tax Payable		410
	FICA Payable		620
	Union Dues Payable		125
	Salaries and Wages Payable		5,925

*Note:* The Salaries and Wages Payable is calculated as the total gross pay minus the total withholding items. There is no particular order for the withholding liabilities, but Salaries and Wages Payable is generally shown as the last credit item.



**SOLUTIONS****Learning Goal 20, continued****LG 20-8.**

Don's gross pay is  $\$1,000 + (\$21,500 \times .1) = \$3,150$ . Don's net pay is his gross pay minus the withholding amounts, which are:

Federal income tax:  $\$3,150 \times .15 = \$472.50$

State income tax:  $\$3,150 \times .03 = \$94.50$

FICA:  $\$3,150 \times .0765 = \$240.97$

Savings plan:  $\$50.00$

Total:  $\$857.97$

Therefore net pay is:  $\$3,150 - \$857.97 = \$2,292.03$

**LG 20-9.**

Date	Account	Post Ref.	Dr.	Cr.
March 31	Sales Salaries Expense		3,150.00	
	Federal Income Tax Payable			472.50
	State Income Tax Payable			94.50
	FICA Payable			240.97
	Savings Administrator Payable			50.00
	Salaries and Wages Payable			2,292.03
	Payroll Tax Expense		294.97	
	FICA Payable			240.97
	SUTA Payable			48.60
	FUTA Payable			5.40

*Calculations:*

FICA:  $\$3,150 \times .0765 = \$240.97$  (same as withholding)

SUTA:  $\$900 \times .054 = \$48.60$

FUTA:  $\$900 \times .006 = \$5.40$

## SOLUTIONS

## Learning Goal 20, continued

## LG 20-10.

(Note: Payroll register continues on next page.)

Payroll Register for the Week							
Employee Name	Tot. Hrs.	Earnings				Current Gross Taxable for . . .	
		Regular	Overtime	Current Gross	YTD Gross	FUTA/SUTA	FICA (OASDI)
Evans	41	\$800	\$30.00	\$830.00	\$7,430.00	\$400.00	\$830.00
Griffin		\$3,100	–0–	\$3,100.00	\$121,650.00	–0–	\$1,450.00
Klosterman	40	\$1,000	–0–	\$1,000.00	\$49,000.00	–0–	\$1,000.00
Theriault	40	\$760	–0–	\$760.00	\$7,530.00	\$230.00	\$760.00
Walzak	45	\$880	\$165.00	\$1,045.00	\$36,845.00	–0–	\$1,045.00
Total		\$6,540	\$195.00	\$6,735.00	\$196,455.00	\$630.00	\$5085.00

Journal:

Nov. 8	Office Salaries Expense	3,100.00	
	Sales Wages Expense	3,635.00	
	Federal Income Tax Payable		1,195.00
	State Income Tax Payable		267.00
	FICA Payable		412.92
	Health Plan Administrator		140.00
	Salaries and Wages Payable		4,720.08
	Payroll Tax Expense	450.72	
	FICA Payable		412.92
	SUTA Payable		34.02
	FUTA Payable		3.78
	Benefits Expense	550.00	
	Benefits Plan Administrator Payable		550.00

**SOLUTIONS****Learning Goal 20, continued****LG 20-10, continued**

Ended November 8, 200X								
Deductions					Payments			
Fed. Inc. Tax	State Inc. Tax	OASDI/Medicare	Health Insurance	Total	Net Pay	Ck #	Office Salaries	Sales Wages
\$120.00	\$25.00	\$63.49	\$28.00	\$236.49	\$593.51	704		\$830.00
\$470.00	\$110.00	\$134.85	\$28.00	\$742.85	\$2,357.15	705	\$3,100.00	
\$240.00	\$44.00	\$76.50	\$28.00	\$388.50	\$611.50	706		\$1,000.00
\$155.00	\$38.00	\$58.14	\$28.00	\$279.14	\$480.86	707		\$760.00
\$210.00	\$50.00	\$79.94	\$28.00	\$367.94	\$677.06	708		\$1,045.00
\$1195.00	\$267.00	\$412.92	\$140.00	\$2,014.92	\$4,720.08		\$3,100.00	\$3,635.00

*Calculation Notes:**Overtime:*

- Evans:  $\$800/40 = \$20/\text{hr} \times 1.5 = \$30/\text{hr} \times 1 \text{ hr} = \$30$
- Walzak:  $\$880/40 = \$22/\text{hr} \times 1.5 = \$33/\text{hr} \times 5 \text{ hrs} = \$165$

*OASDI & Medicare withholding:*

- All employees except Griffin are below \$120,000 OASDI base, so the full current gross wages are subject to the .0765 rate.
- For Griffin,  $\$120,000 - \$118,550 = \$1,450$  subject to OASDI tax. The full \$3,100 is subject to Medicare. Therefore, for Griffin:  $(\$1,450 \times .062) + (\$3,100 \times .0145) = \$134.85$  withholding.

*Wages subject to FUTA/SUTA:*

- Evans:  $\$7,000 - \$6,600 = \$400$  taxable
- Theriault:  $\$7,000 - \$6,770 = \$230$  taxable

**SOLUTIONS****Learning Goal 20, continued****LG 20-11.**

a.

March 31	Sales Wages Expense	168,000	
	Administrative Salary Expense	325,000	
	Sales Commissions Expense	112,000	
	Federal Income Tax Payable		134,200
	State Income Tax Payable		18,300
	FICA Payable		38,240
	Medical Insurance Payable		12,200
	Salaries, Wages, & Commissions Payable		402,060

b.

March 31	Payroll Tax Expense	44,580	
	FICA Payable (same as employees)		39,780
	SUTA Payable ( $80,000 \times .054$ )		4,320
	FUTA Payable ( $80,000 \times .006$ )		480
	Medical Insurance Expense	35,800	
	Workman's Compensation Ins. Expense	24,400	
	Medical Insurance Payable		35,800
	Workman's Comp. Insurance Payable		24,400

**SOLUTIONS****Learning Goal 20, continued****LG 20-12.**

	Wages Expense	9,585.00	
	Federal Income Tax Payable		1,360.00
	State Income Tax Payable		285.00
	FICA Payable		671.25
	Health Insurance Plan Payable		195.00
	Wages Payable		7,073.75
	Payroll Tax Expense	763.95	
	FICA Payable		671.25
	SUTA Payable		83.43
	FUTA Payable		9.27
	Employee Benefits Expense	780.00	
	Benefits and Pension Plan Payable		780.00
	Vacation Pay Expense	766.80	
	Vacation Pay Liability		766.80
	(For Walker)		
	Vacation Pay Liability	2,000.00	
	Federal Income Tax Payable		350.00
	State Income Tax Payable		100.00
	FICA Payable		153.00
	Health Insurance Plan Payable		35.00
	Cash		1,362.00
	Payroll Tax Expense	153.00	
	FICA Payable		153.00
	Employee Benefits Expense	140.00	
	Benefits and Pension Plan Payable		140.00

*Calculations:*

- Gross wages: Chen has earned 2 hours of overtime and Siler has earned 8 hours. Chen's overtime rate is  $\$1,200/80 = \$15 \times 1.5 = \$22.50$ . Siler's rate is  $\$1,600/80 = \$20 \times 1.5 = \$30$ . Therefore, Chen's gross wages are \$1,245, and Siler's gross wages are \$1,840.
- FICA: The earnings of all employees except Grossman are fully within the FICA \$120,000 wage base. Grossman has earned \$117,700 prior to this period, so only \$2,300 of Grossman's current earnings are taxable for the OASDI 6.2% rate. The full amount is subject to the Medicare 1.45% rate. Grossman:  $(\$2,300 \times .062) + (\$3,300 \times .0145) = \$190.45$ . All other employees:  $(\$6,285 \times .0765) = \$480.80$ . Total FICA is therefore \$671.25.

SOLUTIONS

Learning Goal 20, continued

LG 20-12, continued

- SUTA: All of Chen’s earnings are within the \$7,000 SUTA wage base. \$300 of Siler’s earnings are within the SUTA wage base.  $\$1,545 \times .054 = \$83.43$ .
- FUTA: All of Chen’s earnings are within the \$7,000 FUTA wage base. \$300 of Siler’s earnings are within the FUTA wage base.  $\$1,545 \times .006 = \$9.27$
- Employer medical plan expense. Employees pay 20%, so the total cost is  $\$195/.2 = \$975$ .  $\$975 \times .8 = \$780$
- Vacation pay expense: 2 weeks per year is 8% per biweekly payroll period for the 50 weeks worked (2/25 biweekly periods = 8%). Therefore,  $\$9,585 \times .08 = \$766.80$ .

LG 20-13.

- a. The regular pay rate is  $\$1,200/40 = \$30/\text{hour}$ . The overtime rate is therefore  $\$30 \times 1.5 = \$45$ . Gross pay:  $\$1,200 + (\$45 \times 6) = \$1,470$ .

Net pay is gross pay minus withholding. Net is calculated as:

Gross Pay .....	\$1,470.00
Less:	
FICA withheld $(.0765 \times \$1,470)$ .....	\$112.46
Federal income tax withheld $(\$1,470 \times .2)$ .....	294.00
Child support wage garnishment .....	200.00
Total withholding .....	<u>606.46</u>
Net pay .....	<u>\$863.54</u>

- b. Watson’s wages expense, withholding, and net pay:

May 10	Wages Expense	1,470.00	
	Federal Income Tax Payable		294.00
	FICA Payable		112.46
	Garnishment Payable		200.00
	Wages Payable		863.54

**SOLUTIONS****Learning Goal 20, continued****LG 20-13, continued**

The employer's payroll tax expense:

May 10	Payroll Tax Expense	148.46	
	FICA Payable		112.46
	SUTA Payable ( $600 \times .054$ )		32.40
	FUTA Payable ( $600 \times .006$ )		3.60
	Medical Insurance Expense	44.10	
	Medical Insurance Payable		44.10

The cash payment to Watson on May 12:

May 12	Wages Payable	863.54	
	Cash		863.54

The cash payment to pay all payroll taxes on May 15:

May 12	Federal Income Tax Payable	294.00	
	FICA Payable	224.92	
	SUTA Payable	32.40	
	FUTA Payable	3.60	
	Cash		554.92

*Note:* The cash payment for all payroll taxes includes payment for both employer and employee FICA:  $\$112.46 \times 2 = \$224.92$ .

## SOLUTIONS

## Learning Goal 20, continued

## LG 20-14.

(Note: Payroll register continues on next page.)

Payroll Register for the Semi-Monthly							
Employee Name	Tot. Hrs.	Earnings				Current Gross Taxable for . . .	
		Regular	Overtime	Current Gross	YTD Gross	FUTA/SUTA	FICA (OASDI)
Curtis, R.	80	3,200	–0–	3,200	44,500	–0–	3,200
Fisher, Y.	85	1,280	120	1,400	4,100	1,400	1,400
McLeod, S.		7,500	–0–	7,500	123,100	–0–	4,400
Slocum, P.		4,800	–0–	4,800	\$123,500	–0–	1,300
Teruya, M.	84	1,520	114	1,634	49,600	–0–	1,634
Total	–	18,300	234	18,534	344,800	1,400	11,934

*Calculations:**Curtis:*

- Because the YTD gross is less than \$120,000, we know that all the current wages are subject to combined OASDI/Medicare rates.
- The YTD gross exceeds the FUTA/SUTA limit of \$7,000 by much more than the current gross pay, so none of the current gross will be taxed for this.

*Fisher:*

- The overtime rate is  $\$120/5 \text{ hrs.} = \$24/\text{hr.}$
- The regular rate is therefore  $\$24/1.5 = \$16/\text{hr.}$
- Current regular pay is therefore  $80 \times \$16 = \$1,280.$
- Because the YTD gross is less than \$120,000, we know that all the current wages are subject to combined OASDI/Medicare rates.
- To determine federal income tax withholding, locate \$1,400 in the “at least” column of the tax table and look for the column with 3 exemptions.
- The full \$1,400 is subject to FUTA/SUTA because the YTD gross does not exceed \$7,000.

*McLeod:*

- Current period gross pay is  $\$300.00/.04 \text{ state tax rate} = \$7,500.$
- The YTD gross is \$123,100 so  $(\$123,100 - \$7,500) = \$115,600$ , the YTD gross preceding the current payroll period. Therefore,  $(\$120,000 - \$115,600 = \$4,400)$ , the portion of the current gross pay subject to both OASDI/Medicare. The excess above \$120,000 is also subject to the 1.45% Medicare rate.



**SOLUTIONS****Learning Goal 20, continued****LG 20-14, continued**

Period Ended November 12, 20XX								
Deductions					Payments			
Fed. Inc. Tax	State Inc. Tax	OASDI/Medicare	Health Insurance	Total	Net Pay	Ck #	Admin. Salaries	Sales Wages
440.00	128.00	244.80	32.00	844.80	2,355.20	250		3,200
89.00	56.00	107.10	12.80	264.90	1,135.10	251		1,400
652.50	300.00	381.55	75.00	1,409.05	6,090.95	252	7,500	
895.00	192.00	150.20	48.00	1,285.20	3,514.80	253	4,800	
103.00	65.36	125.00	15.20	308.56	1,325.44	254		1,634
2,179.50	741.36	1,008.65	183.00	4,112.51	14,421.49	...	12,300	6,234

*Slocum:*

- The part of current gross pay subject to OASDI/Medicare is \$1,300. The OASDI tax on this is  $\$1,300 \times .062 = \$80.60$ . The total OASDI/Medicare for the current period is \$150.20. Therefore, the Medicare portion is  $\$150.20 - \$80.60 = \$69.60$ . We can now calculate current period gross pay because we know that the Medicare rate is 1.45% of all gross pay. So  $\$69.60 / .0145 = \$4,800$  current period gross pay.
- We can calculate the YTD gross pay because we know that in the current period only \$1,300 of the \$4,800 was subject to the combined OASDI/Medicare tax. This limit is \$120,000. Therefore,  $(\$120,000 - \$1,300) = \$118,700$  YTD gross pay preceding the current period.  $\$118,700 + \$4,800 = \$123,500$  YTD gross pay.

*Teruya:*

- Health insurance is 1% of regular pay, so regular pay is  $\$15.20 / .01 = \$1,520$ .
- The regular pay rate is therefore  $\$1,520 / 80 \text{ hrs.} = \$19 / \text{hr.}$  Therefore, the overtime pay rate is  $\$19 \times 1.5 = \$28.50 / \text{hr.}$
- Overtime pay is  $\$28.50 / \text{hr} \times 4 \text{ hrs.} = \$114$ .

SOLUTIONS

Learning Goal 20, continued

LG 20-15.

Form/Report	Frequency	What For
Form 941/Employer’s Federal Payroll Tax Return	Quarterly	Reports the liability and withholding for federal income tax, employer/employee FICA, and Medicare
Form XXX/Employer’s State Payroll Tax Return	Quarterly	Reports the liability and withholding for state income tax, SUTA, and other state taxes
Form 940/Employer’s Federal Unemployment Tax Return	Annual (year end)	Reports the liability and withholding for FUTA
Form W-2 (copies)/Employee Wage and Tax Statement	Annual (year end)	Reports the employee gross pay and withholding for the year; sent to federal, state, and local taxing authorities
Form W-3/Transmittal form	Annual (year end)	Summary federal transmittal form that must accompany the copies of the W-2 and 1099 (below)
Form 1099 (copies)/Non-Employee Compensation Statement	Annual (year end)	Reports a <i>non-employee’s</i> compensation and withholding; sent to federal, state, and local taxing authorities