



UIL Accounting Payroll Lesson

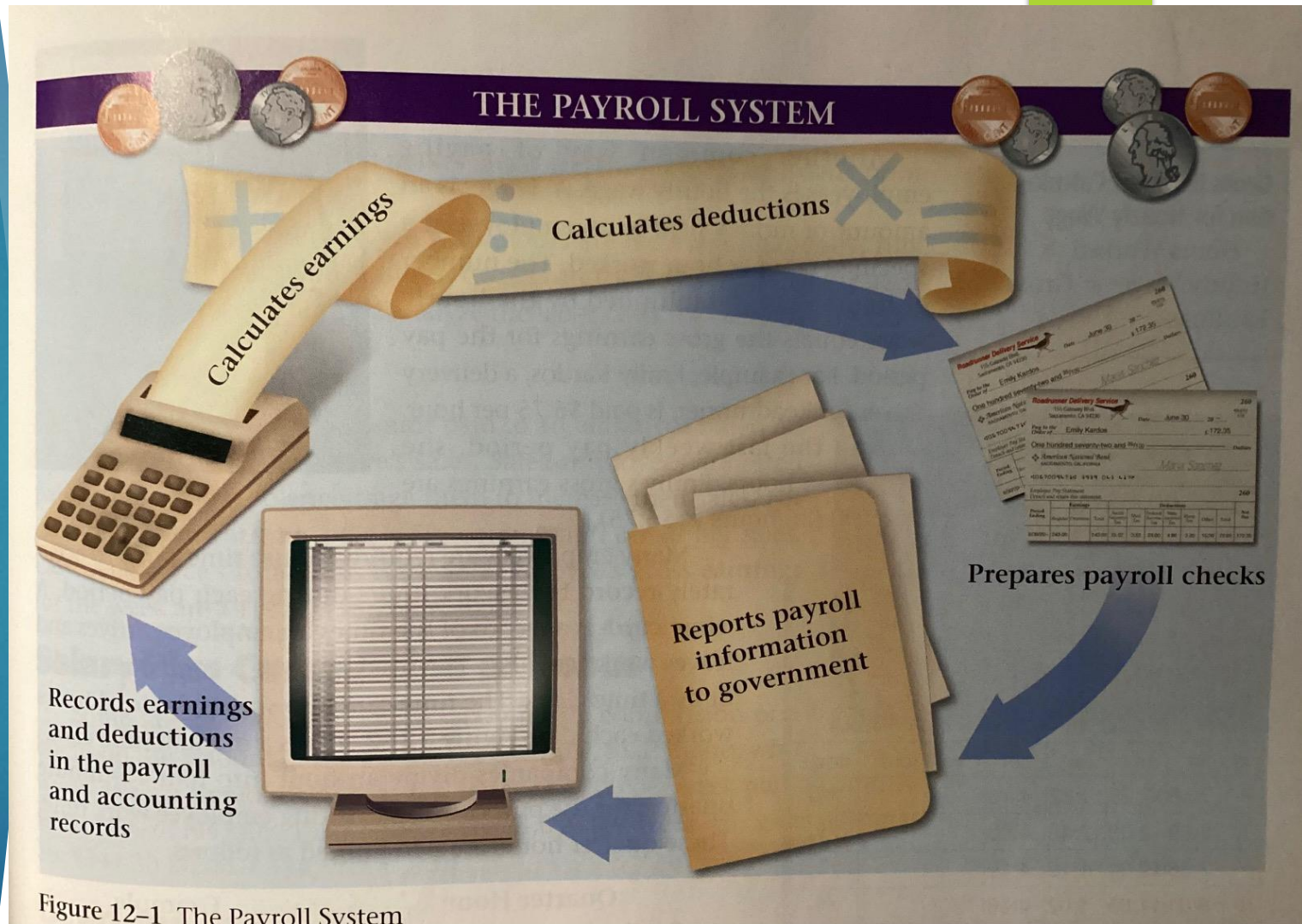
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Payroll Accounting

Federal and State laws require employers to keep accurate records of all payroll information. Most employers have a payroll system to ensure that employees are paid on time and that their payroll checks and payroll records are accurate.

Overview of a Payroll System



Employees
are
compensated
for work
performed in
various ways:

Salary: fixed amount each pay period

Wage: paid at a specific rate per hour worked

Overtime: Extra for hours over 40/week

Commission: percentage of employee's sales

Piece Rate: amt. paid for each item made

The amount of
earnings
calculated is
called
GROSS PAY

(remember it as
'gross' since
employees don't
get to keep it
all!)

Employees
have
REQUIRED
deductions
taken out of
their checks

4 Deductions **REQUIRED** by law

SS (Social Security)

Med (Medicare)

FIT (Federal Income Tax)

SIT (State Income Tax)

Employees
have
VOLUNTARY
deductions
taken out of
their checks

Misc. VOLUNTARY deductions

Savings / IRAs

Health Insurance

Union Dues

Charitable contributions

Misc. (court ordered, bank loans, etc.)

Payroll Deductions

FIT withholding is determined by tables

SS tax rate is 6.2% of gross earnings

Medicare tax rate is 1.45% of gross

State income tax is set by each state

Voluntary deductions are agreed upon by employer and employees

The amount of
earnings
employees take
home is called
NET PAY

(remember it as
'NET' since it's
like the fish
caught in a
'net' that you
TAKE HOME)

**Net Pay is a/k/a
Take Home Pay**



$$\text{Gross Pay} - \text{Total Deductions} = \text{Net Pay}$$

Sample UIL test payroll policies and other information:

Payroll Period—	Monthly
Standard Work Week	40 hours per week
Overtime Pay	Time and a half for hours over standard
Social Security Rate	6.2% on gross earnings up to \$97,500
Medicare Rate	1.45% on all gross wages
Employee Federal Income Tax	Disregard
Jake Freeman's standard rate of pay	Monthly Salary of \$2,500 plus 3% commission
Gross Earnings January 1 - March 31, 20—	\$6,200



Social Security Tax Comes with a Max!

Every year, the IRS sets a maximum level of wages and compensation that is subject to the 6.2% Social Security tax. So, when an employee reaches that amount, Social Security is no longer deducted from their paycheck. On the previous slide the maximum is stated as \$97,500.

FYI: For 2024, the SS max is \$168,600

Social Security Tax Comes with a Max!

So, if Major Moolah earns **\$10,000/month**, at the end of September, the 9th month, he will have earned \$90,000. Then in October, of the **\$10,000 he earned, only \$7,500 will be multiplied by the 6.2%.**

And in November and December, ZERO wages will be taxed for SS. (He kinda gets a raise for two months, since his net pay will go up w/out SS.)



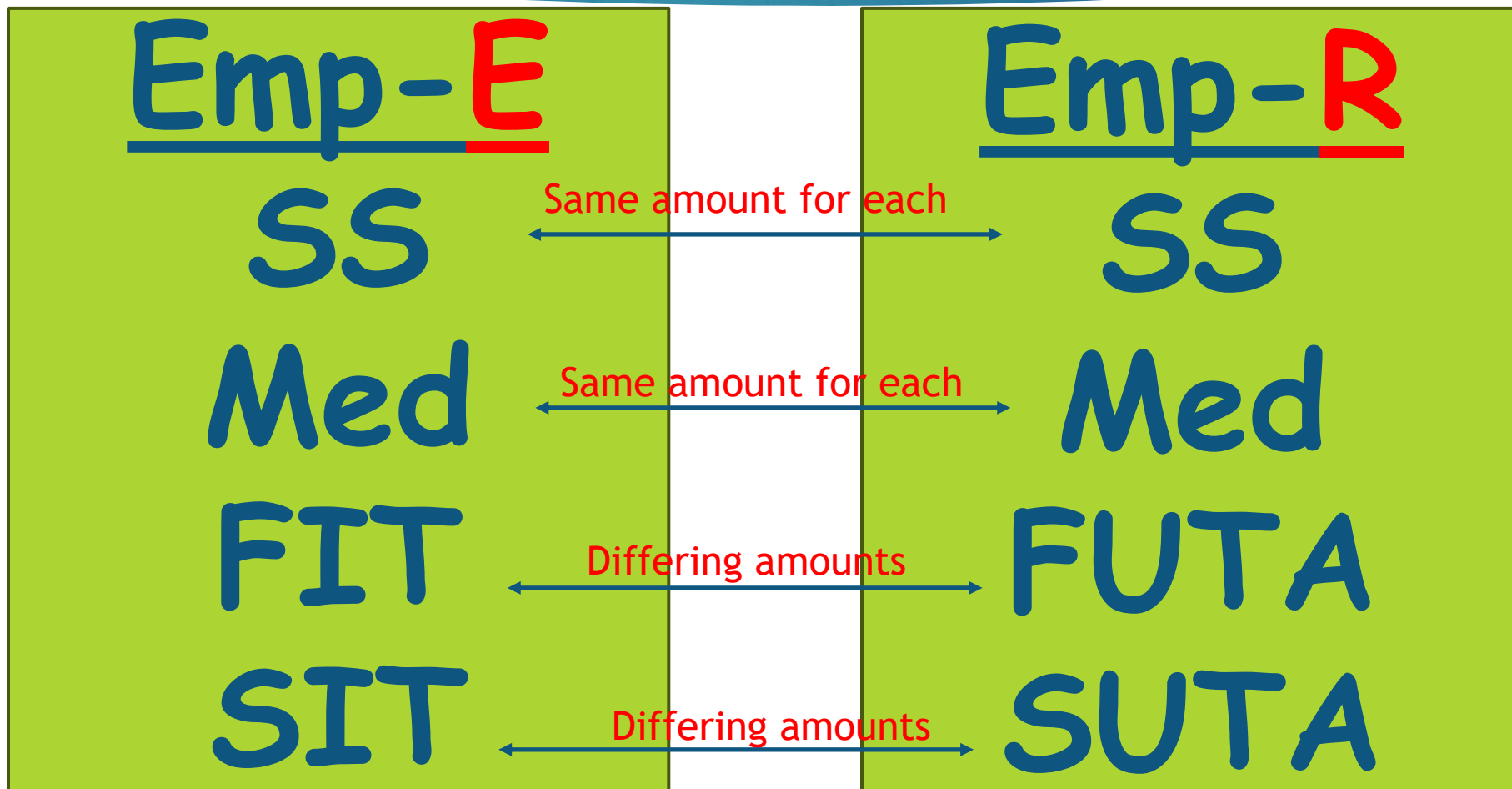
Salaries Expense Entry

(Gen. J or Cash Payments J)

Oct. 15	DR Salary Expense	\$10,000
(\$7,500 x 6.2%)	CR SS Payable	465
(\$10,000 x 1.45%)	CR Med Payable	145
(\$10,000 x 15% ex.)	CR FIT Payable	1,500
(\$10,000 x 2% ex.)	CR SIT Payable	200
	CR Cash (net pay)	7,690

When employe**R**s pay employe**E**s,
they owe taxes also

14



Payroll Mnemonic: See Peter

15

SE- E

Salary Expense - emp-E

PTE - R

Payroll Tax Expense - emp-R

Emp-E

SS

Med

FIT

SIT

E
Is close
to **I** in the
alphabet,
so
employEes
pay
Income
tax...

Emp-R

SS

Med

FUTA

SUTA

R
Is close
to **U** in the
alphabet,
so
employeRs
pay
unemployment
tax...

Payroll Tax Expense Entry (General J)

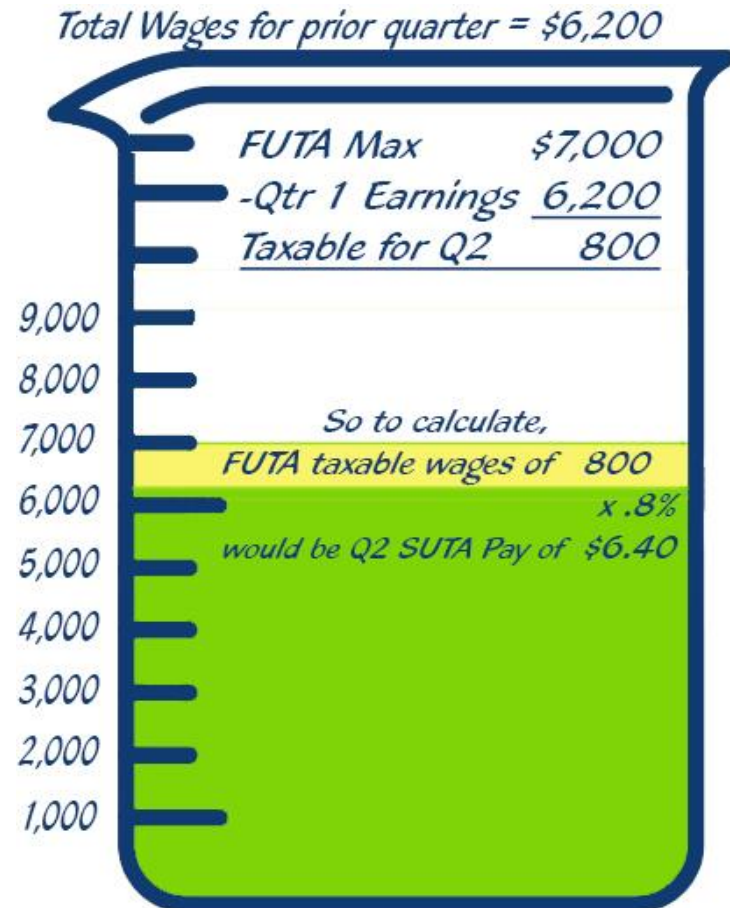
Oct. 15	DR Payroll Tax Expense	\$10,000	
(\$7,500 x 6.2%)	CR SS Payable		465
(\$10,000 x 1.45%)	CR Med Payable		145
(earned > \$7,000)	CR FUTA Payable		0
(earned > \$9,000)	CR SUTA Payable		0

Hmm, why are there ZERO amounts for FUTA & SUTA above?? (Keep going!)

Just like Social Security Tax, FUTA & SUTA have a Max!

Whenever an employee earns the **FUTA tax max of \$7,000**, the employer doesn't owe any more FUTA tax for that employee.

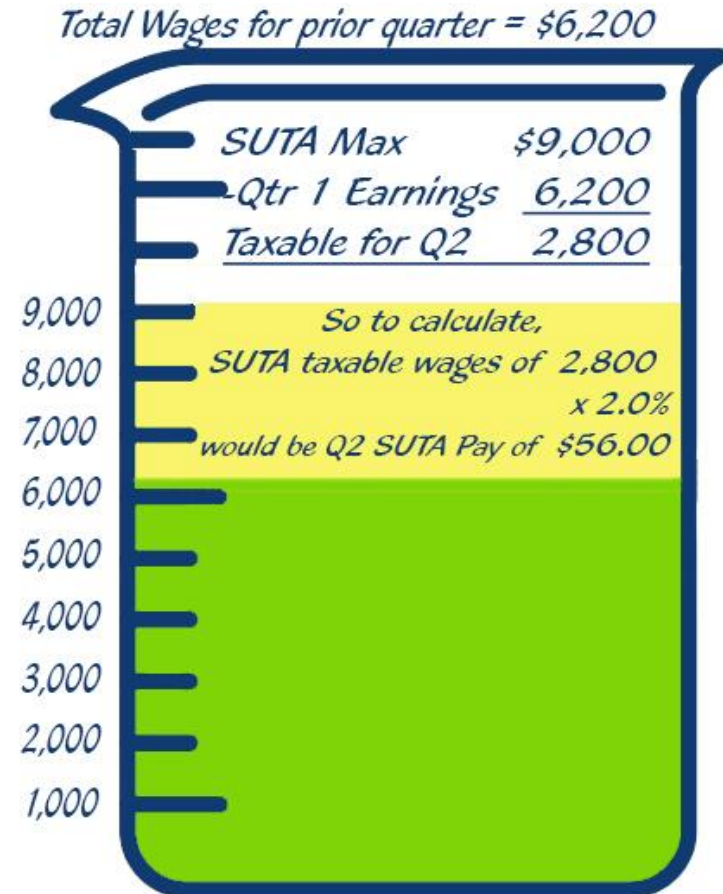
So, it's to the employer's advantage to retain employees. Otherwise they could pay \$56 ($7,000 \times .08\%$) for Avery in Qtr 1, then start over with \$56 for Grace in Qtr 2, and \$56 for Claire in Qtr 3, and \$56 for Meg in Qtr 4



Just like Social Security Tax, FUTA & SUTA have a Max!

Whenever an employee earns the **SUTA tax max of \$9,000**, the employer doesn't owe any more SUTA tax for that employee.

So, it's to the employer's advantage to retain employees. Otherwise they could pay \$180 ($9,000 \times 2.0\%$) for Avery in Qtr 1, then start over with \$180 for Grace in Qtr 2, and \$180 for Claire in Qtr 3, and \$180 for Meg in Qtr 4





Sample problem from UIL test...

Froogle Company has the following payroll policies and other information:

Payroll Period	Monthly
Standard Work Week	40 hours per week
Overtime Pay	Time and a half for hours over standard
Social Security Rate (employer and employee)	6.2% on gross earnings up to \$97,500 per employee
Medicare Rate	1.45% on all gross wages
Employee Federal Income Tax	Disregard
FUTA (federal unemployment tax)	.8% on first \$7,000 gross earnings per employee
SUTA (state unemployment tax)	2.0% on first \$9,000 gross earnings per employee
Jake Freeman's Gross Earnings from January 1 through February 28	\$6,200

Payroll Summary for payments to employees and government entities

Transaction	Journal	DR Accounts	CR accounts
Record the payment of the weekly payroll less deductions	CP	Salary Exp	SS Pay, Med. Pay, FIT Pay, SIT Pay, Cash
Record the employer's payroll taxes	G	Payroll Tax Expense	SS Pay, Med. Pay, FUTA Pay, SUTA Pay
Record the employer's payment of the 941 tax <u>liability</u> (2 times FICA (SS&MED) + emp-E FIT)	CP	SS Pay, Med. Pay, FIT Pay	Cash
Record the employer's payment of FUTA or SUTA	CP	FUTA Pay or SUTA Pay	Cash
Record the employer's payment of voluntary deductions	CP	Individual Liability Accts	Cash

WOOHOO!

You did it!

SUCCESS!

