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How To Do Accounting II

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How to Do
Accounting II

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Chapter 10 Employee Payroll

The payroll of the company is a very important part of the day-to-day transactions of the business. Payroll records must be kept for each employee so any questions the employee or taxing agency has may be answered quickly and accurately. The company has the responsibility of withholding taxes from the employee for the local, state, and Federal Governments.

The company may have two or more classifications for the employees. The two most common are Salary and Wages.

1. Salary – (non-exempt) for managerial, administrative or similar position. Usually expressed as annual salary. Most non-exempt employees do not turn in hours.
2. Wage – Hourly (exempt) employee turns in hours weekly/biweekly/semi-monthly and are usually paid time and a half for hours worked over 40 per week.
3. Others classifications include: units of output (piecework), draw against commission and similar pay programs.

The company may also use outside labor or contract labor for specific tasks to be performed for the company. These individuals are not considered an employee of the company. A **Form 1099**_{mis} is issued showing total amount paid to them. The company is not responsible to withhold any taxes from these contractors.

Employee Income Tax (FIT) information is taken from the W-4 Employee's Withholding Allowance Certificate. The information includes: Address, Social Security Number, Marital Status, and Number of dependents.

FIT taxes are deducted each pay period from employees – (pay as you go). After the taxable earnings are determined, either the "percentage" method or the "wage-bracket" method using the tax tables can compute the amount of income tax to be withheld from the employee and paid later to the taxing agency or government.

FICA (Federal Insurance Contributions Act)

Both the Employee and Employer pay the (FICA) or Social Security Tax. The tax is broken down into two categories.

1. FICA tax (6.2%) paid on the employee's earnings under \$72,600
2. Medicare (1.45%) on all the employees earnings (no cap).

The Social Security Tax supports these three programs:

- Old-age survivors and disability insurance benefits for qualified employees, and their spouses, widows or widowers, dependent children and parents.
- Payment to senior citizens for the cost of certain hospital and related services; or, The Federal health insurance program –Medicare.
- Grants to states that provide benefits for persons temporarily unemployed and for certain relief and welfare purposes.

Use form 941 Employer's Quarterly Federal Tax Return Report to report both the FIT and FICA taxes withheld from the employees.

In addition to the Federal, state, local and the Social Security taxes, there may be withholding from the employee’s check for 401K, Insurance, United Fund, child care, or others. These must be recorded accurately and paid to the appropriate agencies.

The payroll department can use a Payroll register, similar to the one below.

Payroll Register

Name	Earnings			Deductions				Net Pay	CK#
	Reg.	Overtime.	Gross	Fed Tax	S. S.	Medc	Other		

When the company has more than 1 or 2 employees, a special checking account will be set up for payroll. By keeping the checking account separate for payroll, it can be handled in house by another employee or may be used by an outside payroll agency.

Funds for the total amount of the payroll will be transferred from the regular **CASH** account used for daily transactions to an account called **CASH – PAYROLL**.

GENERAL JOURNAL

DATE		Description	Post Ref.	DEBIT	CREDIT
June	15	Cash – Payroll		10,589.32	
		Cash			10,589.32

The check stub attached to the payroll check usually includes the earnings year to date and the amount withheld for Federal Tax (FIT), FICA, Medicare, and other deductions which reduced the employees take home earnings

Many companies are using electronic funds transfer or direct deposit to pay the payroll. If the employer has this method of paying payroll, the employee receives a statement showing earnings, deductions, and net deposited to their account.

In **General Journal** form, the entry for Employee taxes would be recorded:.

DATE		Description	Post Ref.	DEBIT	CREDIT
Jan	5	Wages/Salary Expense		1,285.00	
		Federal Tax Payable			152.00
		FICA (6.2%) Payable			83.53
		Medicare (1.45%) Payable			18.63
		Other Payables (United Way/ 401 etc.)			37.86
		Cash – Payroll			992.98

Money withheld from employees for the Federal Tax, FICA, etc are considered liabilities of the business.

The General Journal Entry to pay these liabilities is:
debit to each of the liability accounts and a **credit** to cash.

Below is the (Abbreviated) Payroll register and General Journal to record the payroll for Stackhouse Grocery Wholesaler. The policy for overtime and taxes are:

1. Time and half for all hours worked during the week over 40
2. Federal Taxes are:
 - a. 10% on earnings of 0 - \$300 per week.
 - b. 12% on earnings of 0 - \$600 per week.
 - c. 15% on earnings of 0 - \$600 **plus** per week.
3. Social Security taxes
 - a. FICA 6.2% (.062)
 - b. Medicare taxes 1.45% (.0145)

Time cards for Stackhouse show the following information

Name Emp.	Burt Harris	Mel Bates	Sara Beal	Mary Reed	John Jones
Pay Rate	6.25	9.50	10.35	12.20	15.75
Reg Hours	40	40	40	37	40
Overtime Hrs	5	0	0	0	2

Stackhouse Payroll Register

Name	Earnings			Deductions				Net	CK
	Reg.	Overtime.	Gross	Fed Tax	S. S.	Medc	?	PAY	
B Harris	250.00	46.87	296.88	29.69	18.41	4.30		244.48	
M Bates	380.00	0	380.00	45.60	23.56	5.51		305.33	
S Beal	414.00	0	414.00	49.68	25.67	6.00		332.65	
M Reed	451.40	0	451.40	54.17	27.99	6.55		362.70	
J Jones	630.00	47.25	677.25	101.59	41.99	9.82		523.85	
TOTALS	2,125.40	94.12	2,219.52	280.72	137.61	32.18		1,769.01	

The totals from the Payroll Register are used in recording the entry in the General Journal. This General Journal / Cash Journal entry will then be posted to the proper Asset, Liability and Expense accounts.

DATE	Description	pr	DEBIT	CREDIT
May 2	Wages/Salary Expense		2,219.52	
	Federal Tax Payable			280.72
	FICA (6.2%) Payable			137.61
	Medicare (1.45%) Payable			32.18
	Cash- Payroll			1,769.01
May 2	Cash – Payroll		1,769.01	
	Cash			1,769.01
	Transfer from Cash to Payroll account			

At the end of the month or quarter, the business will need to send a check or transfer funds to the Federal or State government to pay this liability. Record the payment of these liabilities in the General Journal.

DATE	Description	.PR	DEBIT	CREDIT
July 1	Federal Taxes Payable		280.72	
	Cash			280.72
	Pay FIT Withheld from employees			

Problems for Chapter 10

All of the companies follow the same rules and rates as Stackhouse Grocery.

10.1 Time cards at Maeve’s Magic Make-over show the following information:

Name Emp.	Jacob Job	Mel Malone	Sandra S	Sally Smith	Jennifer B
Pay Rate	6.25	8.75	6.95	9.25	14.30
Hours	40	43	38	41.5	45
401K	5			15	
United Way	5			5	10

Macon’s uses a special payroll account for payroll. Complete the Payroll register and record the payroll information in the General Journal.

10.2 Enter the business transactions for the month and post to the General Ledger.

- May 2 Mike Brandon invested \$25,000 in the business.
- 5 Paid monthly rent \$300.
- 6 Purchased Office Supplies \$200.
- 9 Purchased \$100,000 worth of inventory with Lucky Guy Bank Note.
- 13 Recorded Grand Opening Sales \$85,000.
- 14 Paid Advertising bill \$2,500.
- 15 Completed W-4 information and Paid the Payroll.

Time cards at Brandon’s show the following information:

Name Emp.	Shirley J	Liam Foote	Dick Reed	Karen M	Tom Jones
Pay Rate	6.25	6.50	9.90	7.85	5.50
Hours	40	43	45	28	18
Child Care	25			35	
United Way	5		10		

- May 20 Recorded Cash Sales for the week \$4,900.
- 21 Purchased \$20,000 worth of merchandise on account from Lee’s.
- 22 Paid Lucky Bank \$10,000.
- 23 Paid Utility bill of \$150.
- 26 Withdrew \$300 for personal use over the week-end.
- 28 Recorded Cash Sales for the week \$5,875.
- 29 Recorded payment of Federal Tax, FICA and Medicare Liability for May.
- 30 Paid Lee’s \$3,000 on account for Merchandise Purchased 5/21

10.3 Gail’s Goods has the following payroll information. *Use Stackhouse Grocery for the Federal, FICA, and Medicare. Use State income tax of 3% and City 1%.

Name Emp.	Jim Metro	Helen Lake	Joe Salt	Peg Pepper	Chris Jack
Pay Rate	8.40	7.75	5.50	9.25	11.60
Hours	40	24	45	44	40
Lives in City	Yes	No	No	Yes	Yes
United Way	10		2		5

Complete payroll register and record the payroll information in the General Journal.

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