

# UNIT 8

## STUDY QUESTIONS

1. Employee salaries and wages are commonly paid in cash, by check, or by direct deposit.
2. Employees do not necessarily have the same earnings and deductions for each payroll period. Hours worked and overtime can vary. The number of withholding allowances may change, or the deductions for social security tax may decrease because employees reach the maximum taxable level. Therefore, the amount of net pay can vary from period to period. When employees are paid in cash, it is essential to make an analysis of the sums owed to them at the end of each period in order to determine exactly what currency and coins are needed for their pay.
3. Paying employees by cash requires more work than paying them by check or direct deposit. The cash method also creates the risk of theft or loss because large sums of money must be obtained from the bank and kept in the office at the end of each payroll period. In addition, a signed receipt must be secured from each employee. Such receipts must then be filed.
4. A payroll software package simplifies the payroll clerk's duties. Each payroll period's critical information is entered into the computer program and the computer prints each check and saves information for later reports. Mathematical errors are minimized and payroll can be prepared quicker.
5. Internal controls are designed to protect company assets and the most important asset is cash. Controlling access to the payroll system will help minimize the threat of someone stealing your payroll checks or writing fraudulent payroll checks. Important personal information is also stored in the payroll system so access to that information must be protected.
6. The employer sends a bank transfer form to its bank showing the employees' names, the name of their bank, their account number, and their net pay along with a check for the total amount of the payroll. The bank transfers the necessary funds from the firm's account to the accounts of the individual employees in the various banks. All of this is accomplished through electronic funds transfer (EFT).

On payday, employees who are paid by direct deposit receive a statement showing their earnings, deductions, and net pay. This statement also indicates when the net pay was deposited in the accounts of the employees.
7. Performing timely bank reconciliations on the payroll checking account is an important function. Because a minimal balance is ordinarily maintained in

the payroll account, it is important that employees cash checks quickly and not hold them for long periods of time. The time limitation also helps if payroll checks are stolen and held for a time before trying to cash them.

8. The following procedures should be used to complete a handwritten payroll check:
  - a. Fill in the statement of earnings and deductions attached to the check, using information taken from the payroll register.
  - b. Enter the check number, date, employee's name, amount of net pay, and new balance in the check register or on the check stub.
  - c. Write the check itself, but leave the signature line blank.
  - d. Enter the check number in the check number column of the payroll register. Then verify the accuracy of the check by comparing it with the entry for the employee in the payroll register.
  - e. Submit all checks to the person authorized to sign the checks.
9. If a mistake is made when preparing a payroll check, the word "VOID" should be written in large letters across the face of the check and the signature line should be torn or cut off. Then a notation that the check was voided should be made in the check register or on the check stub. Finally, the check should be filed so that all checks can be accounted for when the bank statement is reconciled.
10. Having a special payroll account makes it easier to reconcile the checking account each month and provides better control over payroll transactions. Uncashed payroll checks are readily identified, and the reasons for the outstanding checks can be determined. Also, since the bank returns the payroll checks together, less time is needed to assemble these checks and transfer them to a permanent file as proof that the employees received the payments. The process of handling the regular checking account is simplified because that account is not cluttered with numerous payroll checks.
11. Many small businesses do not have personnel trained in all the technical and legal requirements that surround the payroll function. A payroll service bureau can perform all that company's payroll tasks for a relatively small fee and the owner doesn't have to worry about the payroll being inaccurate or missing certain tax deadlines.
12. Suggestions of internal control procedures that relate to processing the payroll include the following:
  - If paying in cash, have employees sign a receipt of cash statement.

- Establish a separate checking account to handle only payroll checks.
- Use prenumbered checks for payroll checks.
- Have the bank reconciliation of the payroll checking account be prepared by someone other than the person writing or signing the payroll checks.
- Have a company policy on length of time to keep a void payroll check.
- Separate the payroll functions of authorizing payroll, writing the payroll checks, and distributing the payroll checks.
- Have the payroll records audited by an outside CPA periodically.

## DISCUSSION QUESTIONS

1. The following techniques will help to ensure accuracy and safety when preparing payroll checks.
  - a. Write all checks in ink, or type the checks. Make no erasures or corrections.
  - b. If the checks are written by hand, enter all figures and words clearly.
  - c. Identify the employees as fully as possible on the checks, and enter their names in such a way that it would be difficult for anyone to alter a name.
  - d. Enter the amount in figures and words on each check in such a way that neither can be altered.
  - e. Void all checks on which mistakes have been made, and make a notation in the check register or on the check stub regarding the voided check. File all voided checks so that they can be accounted for.
  - f. Compare the completed payroll checks with the payroll register to make sure that all names and amounts are correct.
  - g. Enter the check number in the payroll register for each check written.
2. The information in one payroll record appears in other payroll records and in the firm's accounting records; it is also used to prepare tax reports and returns. Thus, a single mistake in computing or entering payroll amounts affects many different records and reports, and corrections can require a great deal of extra work. In addition, an error affecting taxes can result in penalties that will increase the firm's operating expenses. For these reasons, the use of verification procedures when preparing payroll records is extremely important. Such procedures save time and money, increase the efficiency of payroll operations, and prevent the frustration and negative atmosphere that can develop when there are many payroll errors.
3. Employees may prefer the direct-deposit pay to being paid by check.
  - a. When the direct-deposit plan is used, there is no need for the employees to spend time depositing

their paychecks at a bank or cashing them at a retail establishment. Since banks are often crowded on paydays, this can be a time-consuming task.

- b. With the direct-deposit plan, employees' net pay is already in their bank accounts on payday, which means that checks can be drawn against the funds immediately. In contrast, with a paycheck, employees sometimes are required to wait several days after their deposit before some banks will permit them to write checks against the deposit.
- c. Under the direct-deposit plan, employees who are ill on payday or away on vacation will still receive their pay immediately. Employees who are paid by check must wait until they return to work to pick up the paycheck and then cash it or deposit it in an account.

4. When employees are paid by direct deposit, they are advised of their earnings, deductions, and net pay for the period upon receipt of an employee pay statement from their firm.
5. Changing from a manual payroll system to a computerized payroll system should be done when the payroll function becomes burdensome to perform by hand. When the number of employees becomes so large that it takes an inordinate amount of time to calculate all the payroll withholdings and other items, the business should consider moving into a computerized payroll system. Many government agencies are beginning to require the submission of payroll reports via the Internet so this will force many companies to move to a computerized system.

## REVIEW EXERCISES

1. The amount on the payroll check is the net pay of \$544.32.  
 Gross earnings: \$782  
 Deductions:  
     Federal income tax: \$108  
     State income tax: \$30.63  
     Social security tax:  $\$782 \times .062 = \$48.48$   
     Medicare tax:  $\$782 \times .0145 = \$11.339 = \$11.34$   
     State disability insurance tax:  $\$782 \times .0118 = \$9.23$   
     IRA: \$30  
 Total deductions:  $\$108 + \$30.63 + \$48.48 + \$11.34 + \$9.23 + \$30 = \$237.68$   
 Net pay:  $\$782 - \$237.68 = \$544.32$
2. The amount on the payroll check is the net pay of \$710.34.  
 Gross earnings:  $\$575 + \$373 = \$948$   
     Weekly salary: \$575  
     Commission:  $\$18,650 \times .02 = \$373$

Deductions:

Federal income tax: \$87

State income tax: \$16.94

Social security tax:  $\$948 \times .062 = \$58.776 =$   
\$58.78

Medicare tax:  $\$948 \times .0145 = \$13.746 = \$13.75$

State disability insurance tax:  $\$948 \times .0118 =$   
\$11.19

Savings bonds: \$50

Total deductions:  $\$87 + \$16.94 + \$58.78 +$   
 $\$13.75 + \$11.19 + \$50 = \$237.66$

Net pay:  $\$948 - \$237.66 = \$710.34$

3. His net pay is \$523.88.

Gross earnings:  $\$16.85 \times 38 = \$640.30$

Deductions:

Federal income tax: \$51

State income tax: \$8.88

Social security tax:  $\$640.30 \times .062 =$   
 $\$39.6986 = \$39.70$

Medicare tax:  $\$640.30 \times .0145 = \$9.28$

State disability insurance tax:  $\$640.30 \times$   
.0118 = \$7.56

Total deductions:  $\$51 + \$8.88 + \$39.70 +$   
 $\$9.28 + \$7.56 = \$116.42$

Net pay:  $\$640.30 - \$116.42 = \$523.88$

4. Her take home pay is \$502.34.

Gross earnings:  $\$500 + \$93.75 = \$593.75$

Regular earnings:  $\$12.50 \times 40 = \$500$

Overtime earnings:  $\$12.50 \times 1.5 = \$18.75 \times$   
5 = \$93.75

Deductions:

Federal income tax: \$35

State income tax: \$3.98

Social security tax:  $\$593.75 \times .062 = \$36.81$

Medicare tax:  $\$593.75 \times .0145 =$   
 $\$8.609375 = \$8.61$

State disability insurance tax:  $\$593.75 \times$   
.0118 = \$7.01

Total deductions:  $\$25 + \$3.98 + \$36.81 +$   
 $\$8.61 + \$7.01 = \$91.41$

Net pay:  $\$593.75 - \$91.41 = \$502.34$

5. The amount on the payroll check of Marie Alfonso is her net pay of \$659.84.

Gross earnings: \$795

Deductions:

Federal income tax: \$56

State income tax: \$8.96

Social security tax:  $\$795 \times .062 = \$49.29$

Medicare tax:  $\$795 \times .0145 = \$11.5275 = \$11.53$

State disability insurance tax:  $\$795 \times .0118 =$   
 $\$9.381 = \$9.38$

Total deductions:  $\$56 + \$8.96 + \$49.29 +$   
 $\$11.53 + \$9.38 = \$135.16$

Net pay:  $\$795 - \$135.16 = \$659.84$

The amount on the payroll check of Peter DeGraff is his net pay of \$457.52.

Gross earnings: \$588.60

Hourly rate:  $\$654 \div 40 = \$16.35$

$\$16.35 \times 36 = \$588.60$

Deductions:

Federal income tax: \$64

State income tax: \$15.11

Social security tax:  $\$588.60 \times .062 = \$36.49$

Medicare tax:  $\$588.60 \times .0145 = \$8.53$

State disability insurance tax:  $\$588.60 \times .0118 =$   
\$6.95

Total deductions:  $\$64 + \$15.11 + \$36.49 +$   
 $\$8.53 + \$6.95 = \$131.08$

Net pay:  $\$588.60 - \$131.08 = \$457.52$

The amount on the payroll check of Joanne Moore is her net pay of \$508.24.

Gross earnings:  $\$620 + \$69.75 = \$689.75$

Regular earnings: \$620

Regularly hourly rate:  $\$620 \div 40 = \$15.50$

Overtime rate:  $\$15.50 \times 1.5 = \$23.25$

Overtime earnings:  $\$23.25 \times 3 = \$69.75$

Deductions:

Federal income tax: \$98

State income tax: \$22.61

Social security tax:  $\$689.75 \times .062 = \$42.76$

Medicare tax:  $\$689.75 \times .0145 = \$10$

State disability insurance tax:  $\$689.75 \times .0118 =$   
 $\$8.13905 = \$8.14$

Total deductions:  $\$98 + \$22.61 + \$42.76 +$   
 $\$10 + \$8.14 = \$181.51$

Net pay:  $\$689.75 - \$181.51 = \$508.24$

The amount on the payroll check of Gary Owens is his net pay of \$582.64.

Gross earnings:  $\$692 + \$51.90 = \$743.90$

Regular earnings: \$692

Regular hourly rate:  $\$692 \div 40 = \$17.30$

Overtime rate:  $\$17.30 \times 1.5 = \$25.95$

Overtime earnings:  $\$25.95 \times 2 = \$51.90$

Deductions:

Federal income tax: \$66

State income tax: \$12.88

Social security tax:  $\$743.90 \times .062 = \$46.12$

Medicare tax:  $\$743.90 \times .0145 = \$10.78655 =$   
\$10.79

State disability insurance tax:  $\$743.90 \times .0118 =$   
 $\$8.7780 = \$8.79$



Total deductions:  $\$66 + \$12.88 + \$46.12 +$   
 $\$10.79 + \$8.79 = \$144.58$

Net pay:  $\$743.90 - \$144.58 = \$599.32$

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|---------|------|
| 6. a. T | e. T |
| b. F    | f. T |
| c. T    | g. F |
| d. T    |      |

# PROBLEMS

I.

Employee's social security number <b>411-12-2004</b>		PERIOD ENDING <b>November 30, 2005</b>		HOURS WORKED Reg. <b>40</b> O.T. _____		EARNINGS						NET PAY	
						Regular		Overtime or Comm.		Total			
						1,000 00				1,000 00		646 50	
DEDUCTIONS													
Federal Inc. Tax		Social Security Tax		Medicare Tax		State Inc. Tax		SDI Tax		I.R.A		Savings Bonds	
105 00		62 00		14 50		60 00						112 00	
												353 50	
Statement of Earnings and Deductions      Detach and retain for your records. <i>ZEPHER CULINARY, INC.</i>													
 <b>ZEPHER CULINARY, INC.</b> 1855 SEVENTH STREET SAN JOSE, CA 95101				<b>PAYROLL CHECK</b>				No. <b>1263</b>				90-306 1222	
Date <b>December 2,</b> 20 <b>05</b>													
Pay to the order of <b>Ryan C. Curtis</b> \$ <b>646.50</b>													
<b>Six hundred forty-six and <sup>50</sup>/<sub>100</sub></b> Dollars													
San Jose Regional Bank 270 College Avenue San Jose, California, 95105				 J.C. Zepher									
⑆ 1222 ⑈ 0306⑆ 01018 ⑈ 057223 ⑈													

- To void a check, you should write the word "Void" across the front of it and then tear the check in two pieces. The voided check should be retained with your other checks to establish that it was not cashed but voided.
- I would recommend hiring the outside payroll service bureau because of the complexity of the payroll operation. Most national service bureaus are very secure operations, and they are aware of privacy

issues that are important to clients. A major advantage of using them is that they can produce all the payroll reports, thus saving Jean a lot of time at the end of each quarter and at year-end. Houston Office Products would not have to incur the yearly costs of payroll software updates. Houston's payroll responsibilities have grown beyond in-house capabilities.

# LEARNING THROUGH PRACTICE EXERCISES

## EXERCISE 8-1

Employee's social security number <b>328-11-8422</b>	PERIOD ENDING <b>January 14, 2005</b>	HOURS WORKED Reg. <b>40</b> O.T. _____	EARNINGS						NET PAY	
			Regular		Overtime or Comm.		Total			
			<b>784</b>	<b>00</b>			<b>784</b>	<b>00</b>	<b>591</b>	<b>23</b>

DEDUCTIONS									
Federal Inc. Tax	Social Security Tax	Medicare Tax	State Inc. Tax	SDI Tax	I.R.A	Savings Bonds	Other	Total	
<b>63</b> <b>00</b>	<b>48</b> <b>61</b>	<b>11</b> <b>37</b>	<b>10</b> <b>54</b>	<b>9</b> <b>25</b>	<b>50</b> <b>00</b>			<b>192</b>	<b>77</b>

Statement of Earnings and Deductions      Detach and retain for your records. *SUN COMMunications*

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*SUN COMMunications*

22 River Road  
Fresno, CA 93707

**PAYROLL CHECK**

No. 1263 90-306  
1222

Date **January 16,** 20 **05**

Pay to the order of **Victor Awad** ----- \$ **591.23**

**Five hundred ninety-one and <sup>23</sup>/<sub>100</sub>** ----- Dollars

SPECIMEN CHECK ONLY

**Valley Commercial Bank**

1080 Palm Drive  
Fresno, CA 93776

**1222 0306 01018 057223**

Employee's social security number <b>743-14-6007</b>	PERIOD ENDING <b>January 14, 2005</b>	HOURS WORKED Reg. <b>40</b> O.T. _____	EARNINGS						NET PAY	
			Regular		Overtime or Comm.		Total			
			<b>826</b>	<b>00</b>			<b>826</b>	<b>00</b>	<b>657</b>	<b>50</b>

DEDUCTIONS									
Federal Inc. Tax	Social Security Tax	Medicare Tax	State Inc. Tax	SDI Tax	I.R.A	Savings Bonds	Other	Total	
<b>60</b> <b>00</b>	<b>51</b> <b>21</b>	<b>11</b> <b>98</b>	<b>10</b> <b>56</b>	<b>9</b> <b>75</b>	<b>25</b> <b>00</b>			<b>168</b>	<b>50</b>

Statement of Earnings and Deductions      Detach and retain for your records. *SUN COMMunications*

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*SUN COMMunications*

22 River Road  
Fresno, CA 93707

**PAYROLL CHECK**

No. 1264 90-306  
1222

Date **January 16,** 20 **05**

Pay to the order of **Susan Clark** ----- \$ **657.50**

**Six hundred fifty seven and <sup>50</sup>/<sub>100</sub>** ----- Dollars

SPECIMEN CHECK ONLY

**Valley Commercial Bank**

1080 Palm Drive  
Fresno, CA 93776

**1222 0306 01018 057223**

## EXERCISE 8-2

EMPLOYEE PAY STATEMENT										<i>SUN COMMunications</i>							
NAME: <b>Bridget Connors</b>										22 River Road Fresno, CA 93707							
The amount shown under NetPay below has been deposited to your account. This amount is for the pay period beginning <b>April 1</b> , 20 <b>05</b> and ending <b>April 7</b> , 20 <b>05</b> . The money was deposited on <b>April 19</b> , 20 <b>05</b> .																	
Employee's social security number  <b>217-10-7311</b>		PERIOD ENDING  <b>April 7, 2005</b>		HOURS WORKED Reg. <b>40</b> O.T. _____		EARNINGS				NET PAY							
						Regular		Overtime or Comm.		Total		<div style="display: flex; justify-content: space-between;"> <span><b>596</b></span> <span><b>37</b></span> </div>					
						<b>808 00</b>				<b>808 00</b>							
DEDUCTIONS																	
Federal Inc. Tax		Social Security Tax		Medicare Tax		State Inc. Tax		SDI Tax		I.R.A		Savings Bonds		Other		Total	
<b>75 00</b>		<b>50 10</b>		<b>11 72</b>		<b>15 28</b>		<b>9 53</b>		<b>50 00</b>						<b>211 63</b>	

EMPLOYEE PAY STATEMENT										<i>SUN COMMunications</i>							
NAME: <b>Mark Gruzinski</b>										22 River Road Fresno, CA 93707							
The amount shown under NetPay below has been deposited to your account. This amount is for the pay period beginning <b>April 1</b> , 20 <b>05</b> and ending <b>April 7</b> , 20 <b>05</b> . The money was deposited on <b>April 19</b> , 20 <b>05</b> .																	
Employee's social security number  <b>854-25-7118</b>		PERIOD ENDING  <b>April 7, 2005</b>		HOURS WORKED Reg. <b>40</b> O.T. _____		EARNINGS				NET PAY							
						Regular		Overtime or Comm.		Total		<div style="display: flex; justify-content: space-between;"> <span><b>520</b></span> <span><b>78</b></span> </div>					
						<b>740 00</b>				<b>740 00</b>							
DEDUCTIONS																	
Federal Inc. Tax		Social Security Tax		Medicare Tax		State Inc. Tax		SDI Tax		I.R.A		Savings Bonds		Other		Total	
<b>66 00</b>		<b>45 88</b>		<b>10 73</b>		<b>12 88</b>		<b>8 73</b>		<b>75 00</b>						<b>219 22</b>	

# ALTERNATE LEARNING THROUGH PRACTICE EXERCISES

## EXERCISE 8-1A

Employee's social security number <b>540-33-0644</b>	PERIOD ENDING <b>March 14, 2005</b>	HOURS WORKED Reg. <b>40</b> O.T. _____	EARNINGS						NET PAY		
			Regular		Overtime or Comm.		Total				
			<b>712</b>	<b>00</b>			<b>712</b>	<b>00</b>	<b>484</b>	<b>91</b>	
DEDUCTIONS											
Federal Inc. Tax	Social Security Tax	Medicare Tax	State Inc. Tax	SDI Tax	I.R.A.	Savings Bonds	Other	Total			
<b>90</b>	<b>00</b>	<b>44</b>	<b>14</b>	<b>10</b>	<b>32</b>	<b>24</b>	<b>23</b>	<b>8</b>	<b>40</b>	<b>227</b>	<b>09</b>

Statement of Earnings and Deductions      Detach and retain for your records. *PLAZA FITNESS CLUB*

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*PLAZA FITNESS CLUB*  
10 Commerce Plaza  
Fresno, CA 93707
**PAYROLL CHECK**
No. 1264
90-306  
1222

Date **March 14,** 20 **05**

Pay to the order of **Sarah Liu** \$ **484.91**

**Four hundred eighty-four and <sup>91</sup>/<sub>100</sub>** Dollars

SPECIMEN CHECK ONLY

**Valley Commercial Bank**  
 1080 Palm Drive  
 Fresno, CA 93776  
 @ 1222 @ 0306 @ 01018 @ 057223 @

Employee's social security number <b>965-36-8119</b>	PERIOD ENDING <b>March 14, 2005</b>	HOURS WORKED Reg. <b>40</b> O.T. _____	EARNINGS						NET PAY		
			Regular		Overtime or Comm.		Total				
			<b>698</b>	<b>00</b>			<b>698</b>	<b>00</b>	<b>488</b>	<b>75</b>	
DEDUCTIONS											
Federal Inc. Tax	Social Security Tax	Medicare Tax	State Inc. Tax	SDI Tax	I.R.A.	Savings Bonds	Other	Total			
<b>100</b>	<b>00</b>	<b>43</b>	<b>28</b>	<b>10</b>	<b>12</b>	<b>22</b>	<b>61</b>	<b>8</b>	<b>24</b>	<b>209</b>	<b>25</b>

Statement of Earnings and Deductions      Detach and retain for your records. *PLAZA FITNESS CLUB*

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*PLAZA FITNESS CLUB*  
10 Commerce Plaza  
Fresno, CA 93707
**PAYROLL CHECK**
No. 1264
90-306  
1222

Date **March 14,** 20 **05**

Pay to the order of **Marshall Smith** \$ **488.75**

**Four hundred eighty-eight and <sup>75</sup>/<sub>100</sub>** Dollars

SPECIMEN CHECK ONLY

**Valley Commercial Bank**  
 1080 Palm Drive  
 Fresno, CA 93776  
 @ 1222 @ 0306 @ 01018 @ 057223 @

## EXERCISE 8-2A

EMPLOYEE PAY STATEMENT												<b>PLAZA FITNESS CLUB</b> <i>10 Commerce Plaza  Fresno, CA 93707</i>					
NAME: <b>Frank Torres</b>																	
The amount shown under NetPay below has been deposited to your account. This amount is for the pay																	
period beginning <b>May 1</b> , 20 <b>05</b> and ending <b>May 7</b> , 20 <b>05</b> . The money was deposited																	
on <b>May 9</b> , 20 <b>05</b> .																	
Employee's social security number  <b>439-32-9522</b>		PERIOD ENDING  <b>May 7, 2005</b>		HOURS WORKED Reg. <b>40</b> O.T. _____		EARNINGS						NET PAY					
						Regular		Overtime or Comm.		Total		522 99					
						672 00				672 00							
DEDUCTIONS																	
Federal Inc. Tax		Social Security Tax		Medicare Tax		State Inc. Tax		SDI Tax		I.R.A		Savings Bonds		Other		Total	
55 00		41 66		9 74		9 68		7 93				25 00				149 01	

EMPLOYEE PAY STATEMENT												<b>PLAZA FITNESS CLUB</b> <i>10 Commerce Plaza  Fresno, CA 93707</i>					
NAME: <b>Marianne Zell</b>																	
The amount shown under NetPay below has been deposited to your account. This amount is for the pay																	
period beginning <b>May 1</b> , 20 <b>05</b> and ending <b>May 7</b> , 20 <b>05</b> . The money was deposited																	
on <b>May 9</b> , 20 <b>05</b> .																	
Employee's social security number  <b>076-47-9330</b>		PERIOD ENDING  <b>May 7, 2005</b>		HOURS WORKED Reg. <b>40</b> O.T. _____		EARNINGS						NET PAY					
						Regular		Overtime or Comm.		Total		576 57					
						728 00				728 00							
DEDUCTIONS																	
Federal Inc. Tax		Social Security Tax		Medicare Tax		State Inc. Tax		SDI Tax		I.R.A		Savings Bonds		Other		Total	
54 00		45 14		10 56		8 14		8 59				25 00				151 43	