

CHAPTER 14 PAYROLL

Employees and employers are required to pay local, state, and federal payroll taxes. Employers must withhold taxes from each employee's paycheck. The amount of federal taxes withheld is determined from tax tables published by the Internal Revenue Service (IRS) in a booklet called Circular E, Employer's Tax Guide. It shows the applicable tax tables and forms that are necessary for filing employee payroll information. PCA 2005, Educational Version, has payroll tax tables built into the software. Chapter 14 teaches your students how to access and use the payroll tax tables.

Comment

The payroll tax withholdings calculated automatically when students used the Payroll Entry task. The payroll taxes shown are for example purposes only. They do not reflect exact withholding amounts. For an additional fee, Peachtree Software has a payroll tax update service. For information about this go to their website at www.peachtree.com/taxtable.

The amount withheld from paychecks depends on the employee's earnings and the number of exemptions *or* withholding allowances claimed by the employee. The number of withholding allowances usually includes one for the employee, one for the employee's spouse, and one for each dependent. PCA will automatically calculate the amounts withheld from employees' paychecks.

Also deducted from employees' paychecks are FICA taxes or social security taxes. This deduction from wages provides qualified workers who retire at age 62 or older with monthly payments from the federal government. The retiree also receives medical benefits called Medicare after reaching age 65. In addition to these retirement benefits, social security provides payments to the surviving family of a qualified deceased worker. PCA will automatically compute FICA and Medicare taxes.

By January 31 of each year, employers are required to issue W-2 Forms to employees and to the Internal Revenue Service. The W-2 Form is an annual report of the employee's wages subject to FICA and federal income tax and shows the wage amounts that were withheld.

In PCA, the employee's W-2 Form shows the Federal Income Tax, State Income Tax, Social Security, and Medicare withheld. In 2005, yearly

income up to \$90,000 was subject to FICA tax. Each year the wage base for Social Security (FICA tax) increases. There is no income limit on amounts subject to the Medicare tax. Congress may adjust the FICA tax annually. The percentage of FICA tax for social security in 2005 was 6.2%; the percentage for Medicare, 1.45%.

Employees may also voluntarily deduct other amounts from wages. These voluntary deductions include: charitable contributions, medical insurance premiums, U.S. savings bonds, or union dues.

SOFTWARE OBJECTIVES: In Chapter 14, your students used the software to:

1. Explore the Payroll Setup Wizard.
2. Enter initial payroll fields.
3. Enter employee and employer default information.
4. Journalize and post Payroll Journal entries.
5. Print paychecks.
6. Print the financial statements.
7. Make four backups: two for Richard's Sales & Service; two for the end-of-chapter exercises.

WEB OBJECTIVES: In Chapter 14, your students did these Internet activities:

1. Used their Internet browser to go to the book's website.
2. Went to the Internet Activity link on the book's website. Then, selected WEB EXERCISES PART 3. Completed the fourth web exercise in Part 3—Salary Calculator.
3. Used a word processing program to write a summary of the websites that they visited.

It is the purpose of this chapter to show students how to use PCA to enter payroll default information, add employees, make the correct journal entries for payroll, and to print payroll reports. Once students set up the default information and employee information, PCA automates the payroll process.

Students will establish the following default information for processing payroll:

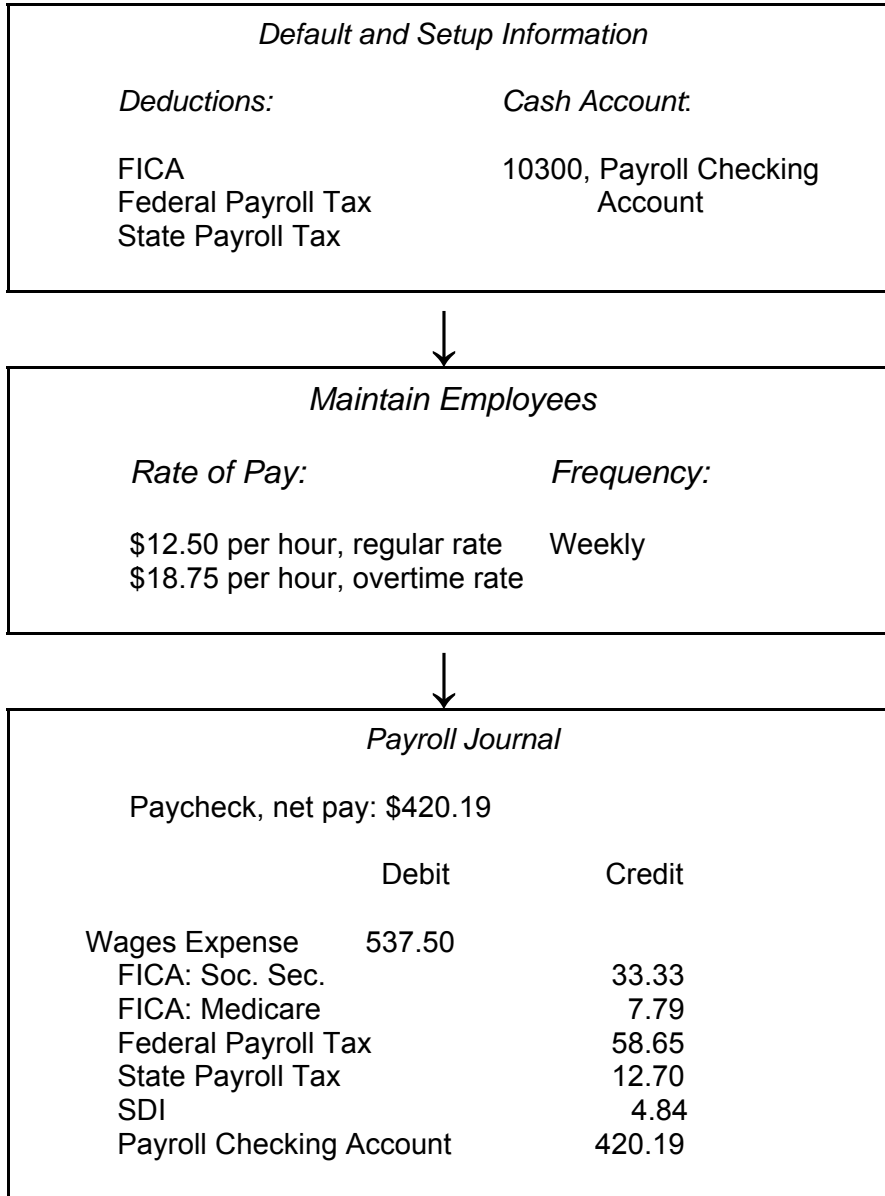
1. The cash account to credit when disbursing paychecks. Richard's Sales & Service credits account 10300, Payroll Checking Account.
2. The accounts that comprise the employee's fields.
3. The accounts that comprise the employer's fields.
4. The payroll fields that go on the W-2 form.
5. The employee-paid taxes.
6. The employer-paid taxes.

At the Maintain Employees level, students enter the following types of information:

1. The employee name, address, telephone number, and information from the Employee's Withholding Allowance Certificate, Form W-4.
2. Information about employee pay: hourly, salaried, and amount.
3. The tax filing status of the employee for federal, state, and local purposes, including withholding allowances.

Students process payroll through the Tasks menu. From the Payroll Entry screen, students select an employee, date the paycheck and pay period, then Peachtree automatically calculates withholding amounts. These payroll tax amounts are shown for each employee. When students print payroll checks, amounts are posted to the Payroll Journal.

The following flowchart shows students the steps for setting up and using PCA's payroll.

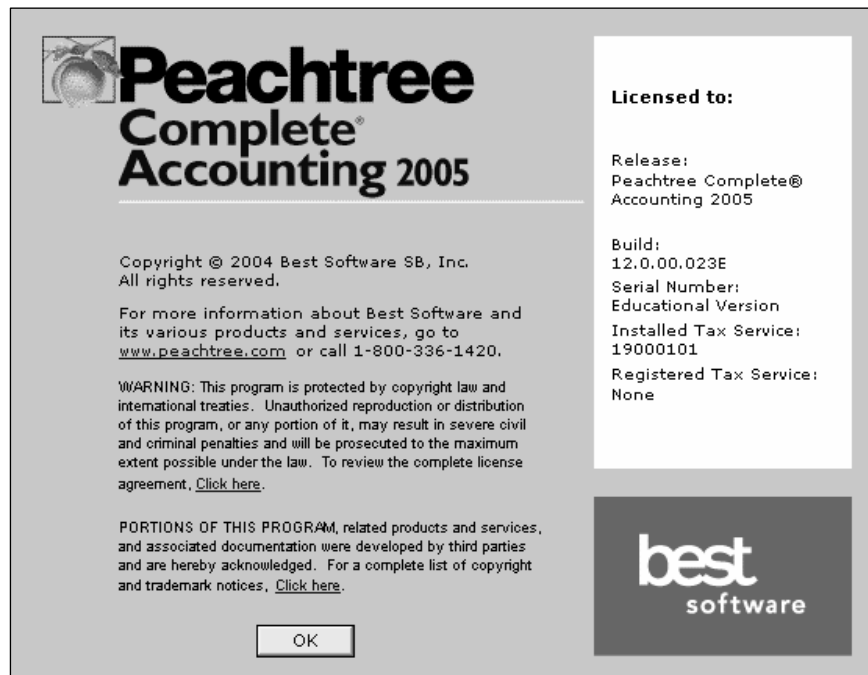


PCA TIPS, CHAPTER 14

- The exercises in Part 3 are cumulative. Chapters 11, 12, and 13 must be completed before starting Chapter 14.
- The Payroll Entry screen is the Payroll Journal.
- The payroll tax withholdings calculated automatically when students select the Payroll Entry task are for example purposes only. They do not reflect exact withholding amounts. For an additional fee, Peachtree Software has a payroll tax update service. For information about this, go to their website at www.peachtree.com/taxtable.

Follow these steps to check the global tax table version:

1. Start Windows, then Peachtree. Open any company.
2. From the main menu, click on Help, About Peachtree Accounting.



If your students' Tax Table Version is 19000101, a generic tax table is installed on the computer. The tax table supplied with the educational version of the software is provided for example purposes only and should not be relied upon for accurate withholding amounts. For purposes of this chapter and subsequent payroll work in the textbook, students use the tax tables supplied with the PCA 2005, Educational Version. During payroll entry, payroll tax amounts will be calculated automatically.

For an additional fee, Peachtree Software has a payroll tax service. Visit Peachtree's website at www.peachtree.com/taxtable to display updated information about the Peachtree Complete Accounting Tax Service.

3. Click to close the screen.

LECTURE OUTLINE FOR CHAPTER 14: PAYROLL

- A. Software Objectives, page 495
- B. Web Objectives, page 495
- C. Getting Started, pages 498-499
 - 1. Checking your global tax table version, pages 500-501
 - 2. Establishing the payroll account, page 501
- D. Initial Payroll Fields, pages 501-505
- E. Entering Employee and Employer Default Information, pages 505-510
- F. Entering Employee Maintenance Information, pages 510-512
- G. Backing Up Your Data, pages 512-513
- H. Payroll Entry, pages 513-519
- I. Printing the Payroll Journal, pages 519-521
- J. Printing the General Ledger Trial Balance, pages 521-522
- K. Printing the Financial Statements, pages 523-525

- L. Backing Up Chapter 14 Data, page 526
- M. Internet Activity, page 526
- N. Summary and Review, page 527
 - 1. Going to the net, page 527
 - 1. Multiple choice questions, pages 528-530
 - 3. Exercise 14-1, pages 530-533
 - 4. Exercise 14-2, page 533
 - 5. Chapter 14 index, page 534

ANSWERS TO GOING TO THE NET

- 1. Each year, employers must send Copy A of Form W-2 to the Social Security Administration by the last day of February (or the last day of March if you file electronically) to report the wages and taxes of your employees for the previous calendar year.
- 2. Employers must give a W-2 to each employee by January 31 (for individual income tax purposes).
- 3. W-2s are sent to the Social Security Administration along with Form W-3 (Transmittal of Income and Tax Statements).

ANSWERS TO MULTIPLE-CHOICE QUESTIONS: The answers to the questions assume PCA 2005, Educational Version, payroll tax amounts were used.

- 1. b (account 10300, Payroll Checking Account)
- 2. d (the number of withholding allowances)
- 3. a (Circular E, Employer's Tax Guide)
- 4. d (all of the above)
- 5. b (\$420.19)
- 6. b (Debit, Account No. 10300, Payroll Checking Account, \$5,500; Credit, Account No. 10200, Santa Barbara Bank, \$5,500)
- 7. d (Federal unemployment tax--FUTA)
- 8. c (account 77500, Wages Expense)
- 9. a (\$441.19)
- 10. a (3.4%)

Solution to Exercise 14-1 (4)

Student Name Service Merchandise General Journal For the Period From Jan 6, 2005 to Jan 6, 2005					
Filter Criteria includes: Report order is by Date. Report is printed with Accounts having Zero Amounts and with Truncated Transaction Descriptions and in Detail Format.					
Date	Account ID	Reference	Trans Description	Debit Amt	Credit Amt
1/6/05	10300 10200		Payroll Checking Account Portland Bank	5,000.00	5,000.00
Total				<u>5,000.00</u>	<u>5,000.00</u>

Solution to Exercise 14-1 (10)

Student Name Service Merchandise Employee List					Page: 1
Filter Criteria includes: Report order is by ID.					
Employee ID Employee	Address line 1 Address line 2 City ST ZIP	SS No	Fed Filing Status	Pay Type	
C50 Rob Cramner	1341 Brockton Road, Apt. 2 Portland, OR 97240	876-88-1200	Single	Hourly	
M60 Mimi Morris	135 Thompson Lane Portland, OR 97204	399-00-1198	Married	Hourly	

Solution to Exercise 14-2 (6)

Student Name Service Merchandise Payroll Journal For the Period From Jan 1, 2005 to Jan 31, 2005				
Filter Criteria includes: Report order is by Check Date. Report is printed in Detail Format.				
Date Employee	GL Acct ID	Reference	Debit Amt	Credit Amt
1/7/05 Rob Cramner	77500	6050	500.00	
	23400			53.03
	24000			31.00
	24200			7.25
	23600			34.00
	24100			31.00
	24400			7.25
	23500			4.00
	25000			3.11
	23700			17.00
	72510		31.00	
	72520		7.25	
	72530		4.00	
	72535		3.11	
	72540		17.00	
	10300			374.72
1/7/05 Mimi Morris	77500	6051	500.00	
	23400			36.20
	24000			31.00
	24200			7.25
	23600			29.00
	24100			31.00
	24400			7.25
	23500			4.00
	25000			3.11
	23700			17.00
	72510		31.00	
	72520		7.25	
	72530		4.00	
	72535		3.11	
	72540		17.00	
	10300			396.55
1/14/05 Rob Cramner	77500	6052	500.00	
	23400			53.03
	24000			31.00
	24200			7.25
	23600			34.00
	24100			31.00
	24400			7.25
	23500			4.00
	25000			3.11
	23700			17.00
	72510		31.00	
	72520		7.25	
	72530		4.00	
	72535		3.11	
	72540		17.00	
	10300			374.72
1/14/05 Mimi Morris	77500	6053	500.00	
	77600		18.75	
	23400			39.01
	24000			32.16
	24200			7.52
	23600			31.00
	24100			32.16
	24400			7.52
	23500			4.15
	25000			3.23
	23700			17.64
	72510		32.16	
	72520		7.52	
	72530		4.15	

Solution to Exercise 14-2 (6) (Continued)

Student Name Service Merchandise Payroll Journal For the Period From Jan 1, 2005 to Jan 31, 2005				
Filter Criteria includes: Report order is by Check Date. Report is printed in Detail Format.				
Date Employee	GL Acct ID	Reference	Debit Amt	Credit Amt
	72535		3.23	
	72540		17.64	
	10300			409.06
1/21/05	77500	6054	500.00	
Rob Cramner	77600		37.50	
	23400			58.65
	24000			33.33
	24200			7.79
	23600			37.00
	24100			33.33
	24400			7.79
	23500			4.30
	25000			3.34
	23700			18.28
	72510		33.33	
	72520		7.79	
	72530		4.30	
	72535		3.34	
	72540		18.28	
	10300			400.73
1/21/05	77500	6055	500.00	
Mimi Morris	23400			36.20
	24000			31.00
	24200			7.25
	23600			29.00
	24100			31.00
	24400			7.25
	23500			4.00
	25000			3.11
	23700			17.00
	72510		31.00	
	72520		7.25	
	72530		4.00	
	72535		3.11	
	72540		17.00	
	10300			396.55
1/28/05	77500	6056	500.00	
Rob Cramner	23400			53.03
	24000			31.00
	24200			7.25
	23600			34.00
	24100			31.00
	24400			7.25
	23500			4.00
	25000			3.11
	23700			17.00
	72510		31.00	
	72520		7.25	
	72530		4.00	
	72535		3.11	
	72540		17.00	
	10300			374.72
1/28/05	77500	6057	500.00	
Mimi Morris	77600		18.75	
	23400			39.01
	24000			32.16
	24200			7.52
	23600			31.00
	24100			32.16
	24400			7.52
	23500			4.15

Solution to Exercise 14-2 (6) (Concluded)

Page: 3

**Student Name Service Merchandise
Payroll Journal
For the Period From Jan 1, 2005 to Jan 31, 2005**

Filter Criteria includes: Report order is by Check Date. Report is printed in Detail Format.

Date Employee	GL Acct ID	Reference	Debit Amt	Credit Amt
	25000			3.23
	23700			17.64
	72510		32.16	
	72520		7.52	
	72530		4.15	
	72535		3.23	
	72540		17.64	
	10300			409.06
			<u>4,583.24</u>	<u>4,583.24</u>

Solution to Exercise 14-2 (7)

Student Name Service Merchandise			
General Ledger Trial Balance			
As of Jan 31, 2005			
Filter Criteria includes: Report order is by ID. Report is printed in Detail Format.			
Account ID	Account Description	Debit Amt	Credit Amt
10200	Portland Bank	40,279.91	
10300	Payroll Checking Account	1,863.89	
10400	Downtown Savings & Loan	14,300.00	
12000	Merchandise Inventory	13,310.00	
13000	Supplies	1,000.00	
14000	Prepaid Insurance	2,400.00	
15000	Furniture and Fixtures	3,500.00	
15100	Computers & Equipment	5,500.00	
15500	Building	85,000.00	
20000	Accounts Payable		240.00
23400	Federal Payroll Taxes Paya		368.16
23500	FUTA Tax Payable		32.60
23600	State Payroll Taxes Payabl		259.00
23700	SUTA Payable		138.56
24000	FICA Employee Taxes Pay		252.65
24100	FICA Employer Taxes Paya		252.65
24200	Medicare Employee Taxes		59.08
24400	Medicare Employer Taxes		59.08
25000	Local Payroll Taxes Payabl		25.35
27000	Long-Term Notes Payable		10,000.00
27400	Mortgage Payable		60,000.00
39009	Student Name, Capital		96,450.00
39010	Student Name, Drawing	400.00	
40200	Sales-Hardware		4,350.00
40400	Sales-Tools		2,295.00
50000	Cost of Goods Sold-Hardw	1,450.00	
50500	Cost of Goods Sold-Tools	870.00	
59500	Purchase Discounts		12.80
70000	Maintenance Expense	120.00	
71000	Office Expense	139.82	
72510	FICA Expense	252.65	
72520	Medicare Expense	59.08	
72530	FUTA Expense	32.60	
72535	Local Payroll Taxes Expens	25.35	
72540	SUTA Expense	138.56	
73500	Postage Expense	37.00	
76000	Telephone Expense	41.07	
77500	Wages Expense	4,000.00	
77600	Overtime Expense	75.00	
	Total:	174,794.93	174,794.93

Solution to Exercise 14-2 (8)

Student Name Service Merchandise Balance Sheet January 31, 2005	
ASSETS	
Current Assets	
Portland Bank	\$ 40,279.91
Payroll Checking Account	1,863.89
Downtown Savings & Loan	14,300.00
Merchandise Inventory	13,310.00
Supplies	1,000.00
Prepaid Insurance	2,400.00
	<u>73,153.80</u>
Total Current Assets	73,153.80
Property and Equipment	
Furniture and Fixtures	3,500.00
Computers & Equipment	5,500.00
Building	85,000.00
	<u>94,000.00</u>
Total Property and Equipment	94,000.00
Other Assets	
	<u>0.00</u>
Total Other Assets	0.00
Total Assets	\$ <u><u>167,153.80</u></u>
LIABILITIES AND CAPITAL	
Current Liabilities	
Accounts Payable	\$ 240.00
Federal Payroll Taxes Payable	368.16
FUTA Tax Payable	32.60
State Payroll Taxes Payable	259.00
SUTA Payable	138.56
FICA Employee Taxes Payable	252.65
FICA Employer Taxes Payable	252.65
Medicare Employee Taxes Payabl	59.08
Medicare Employer Taxes Payabl	59.08
Local Payroll Taxes Payable	25.35
	<u>1,687.13</u>
Total Current Liabilities	1,687.13
Long-Term Liabilities	
Long-Term Notes Payable	10,000.00
Mortgage Payable	60,000.00
	<u>70,000.00</u>
Total Long-Term Liabilities	70,000.00
Total Liabilities	71,687.13
Capital	
Student Name, Capital	96,450.00
Student Name, Drawing	(400.00)
Net Income	(583.33)
	<u>95,466.67</u>
Total Capital	95,466.67
Total Liabilities & Capital	\$ <u><u>167,153.80</u></u>

Solution to Exercise 14-2 (8) (Continued)

Student Name Service Merchandise Income Statement For the One Month Ending January 31, 2005				
	Current Month		Year to Date	
Revenues				
Sales-Hardware	\$ 4,350.00	65.46	\$ 4,350.00	65.46
Sales-Tools	2,295.00	34.54	2,295.00	34.54
Total Revenues	<u>6,645.00</u>	100.00	<u>6,645.00</u>	100.00
Cost of Sales				
Cost of Goods Sold-Hardware	1,450.00	21.82	1,450.00	21.82
Cost of Goods Sold-Tools	870.00	13.09	870.00	13.09
Purchase Discounts	(12.80)	(0.19)	(12.80)	(0.19)
Total Cost of Sales	<u>2,307.20</u>	34.72	<u>2,307.20</u>	34.72
Gross Profit	<u>4,337.80</u>	65.28	<u>4,337.80</u>	65.28
Expenses				
Maintenance Expense	120.00	1.81	120.00	1.81
Office Expense	139.82	2.10	139.82	2.10
FICA Expense	252.65	3.80	252.65	3.80
Medicare Expense	59.08	0.89	59.08	0.89
FUTA Expense	32.60	0.49	32.60	0.49
Local Payroll Taxes Expense	25.35	0.38	25.35	0.38
SUTA Expense	138.56	2.09	138.56	2.09
Postage Expense	37.00	0.56	37.00	0.56
Telephone Expense	41.07	0.62	41.07	0.62
Wages Expense	4,000.00	60.20	4,000.00	60.20
Overtime Expense	75.00	1.13	75.00	1.13
Total Expenses	<u>4,921.13</u>	74.06	<u>4,921.13</u>	74.06
Net Income	<u>\$ (583.33)</u>	(8.78)	<u>\$ (583.33)</u>	(8.78)

Solution to Exercise 14-2 (8) (Concluded)

Student Name Service Merchandise Statement of Cash Flow For the one Month Ended January 31, 2005		
	Current Month	Year to Date
Cash Flows from operating activities		
Net Income	\$ (583.33)	\$ (583.33)
Adjustments to reconcile net income to net cash provided by operating activities		
Merchandise Inventory	1,440.00	1,440.00
Accounts Payable	240.00	240.00
Federal Payroll Taxes Payable	368.16	368.16
FUTA Tax Payable	32.60	32.60
State Payroll Taxes Payable	259.00	259.00
SUTA Payable	138.56	138.56
FICA Employee Taxes Payable	252.65	252.65
FICA Employer Taxes Payable	252.65	252.65
Medicare Employee Taxes Payabl	59.08	59.08
Medicare Employer Taxes Payabl	59.08	59.08
Local Payroll Taxes Payable	25.35	25.35
Total Adjustments	<u>3,127.13</u>	<u>3,127.13</u>
Net Cash provided by Operations	<u>2,543.80</u>	<u>2,543.80</u>
Cash Flows from investing activities		
Used For		
Net cash used in investing	<u>0.00</u>	<u>0.00</u>
Cash Flows from financing activities		
Proceeds From		
Used For		
Student Name, Drawing	<u>(400.00)</u>	<u>(400.00)</u>
Net cash used in financing	<u>(400.00)</u>	<u>(400.00)</u>
Net increase <decrease> in cash	<u>\$ 2,143.80</u>	<u>\$ 2,143.80</u>
Summary		
Cash Balance at End of Period	\$ 56,443.80	\$ 56,443.80
Cash Balance at Beg of Period	<u>(54,300.00)</u>	<u>(54,300.00)</u>
Net Increase <Decrease> in Cash	<u>\$ 2,143.80</u>	<u>\$ 2,143.80</u>