

Payroll Liabilities and Tax Records

BEFORE YOU READ

Predict

1. What does the chapter title tell you?
2. What do you already know about this subject from personal experience?
3. What have you learned about this in the earlier chapters?
4. What gaps exist in your knowledge of this subject?

What You'll Learn

1. Record payroll transactions in the general journal.
2. Describe the employer's payroll taxes.
3. Compute and complete payroll tax expense forms.
4. Record the payment of tax liabilities in the general journal.
5. Complete payroll tax reports.
6. Define the accounting terms introduced in this chapter.

Why It's Important

- ▶ Employers are legally required to make tax deposits on time and to report the earnings of each employee.



Exploring the *Real World* of Business

EVALUATING PAYROLL COSTS

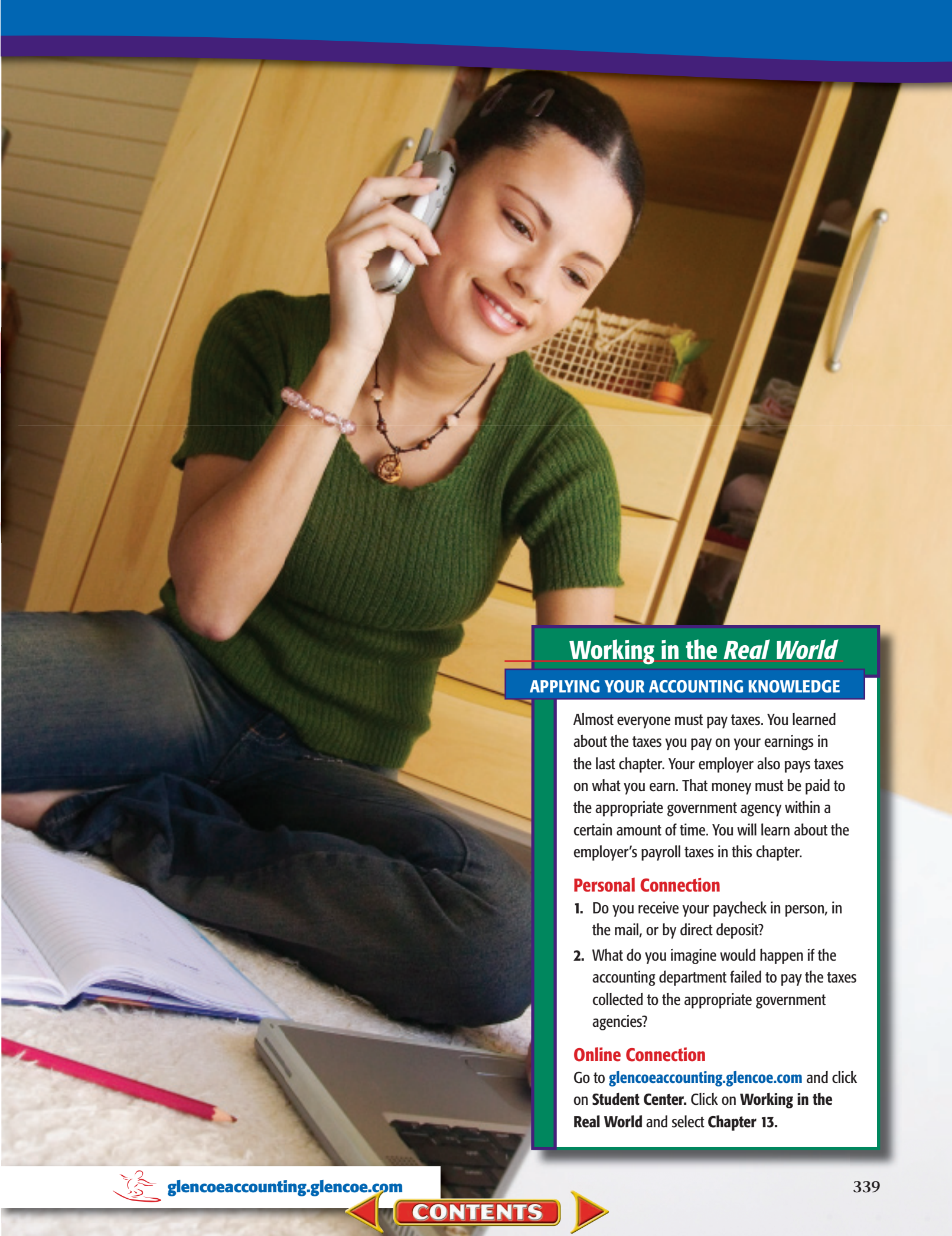
Verizon Wireless

Can you imagine the paperwork involved in preparing paychecks for 51,000 workers at **Verizon Wireless**? What if many of these workers are temporary or contract employees? Gathering all these time sheets and job assignments is a huge task. That's why **Verizon Wireless** decided to find a better way to automate the process for managing its contract work force.

The company now uses a Web-based payroll system called InSite. Requests and approvals for hiring contract employees, time sheets, and paychecks are handled online, faster and less costly than before. Now **Verizon Wireless** can spend more of its time and money fine-tuning new technologies like picture messaging, wireless Internet access, and 3-D games for its more than 43 million wireless phone customers.

What Do You Think?

Why do you think a company like **Verizon Wireless** chooses to hire temporary or contract employees rather than full-time employees?



Working in the *Real World*

APPLYING YOUR ACCOUNTING KNOWLEDGE

Almost everyone must pay taxes. You learned about the taxes you pay on your earnings in the last chapter. Your employer also pays taxes on what you earn. That money must be paid to the appropriate government agency within a certain amount of time. You will learn about the employer's payroll taxes in this chapter.

Personal Connection

1. Do you receive your paycheck in person, in the mail, or by direct deposit?
2. What do you imagine would happen if the accounting department failed to pay the taxes collected to the appropriate government agencies?

Online Connection

Go to glencoeaccounting.glencoe.com and click on **Student Center**. Click on **Working in the Real World** and select **Chapter 13**.



Journalizing and Posting the Payroll

BEFORE YOU READ

Main Idea

The release of cash for payroll is a transaction. It must be journalized and posted.

Read to Learn...

- ▶ how to analyze and journalize the payroll transaction. (p. 340)
- ▶ how to post the payroll transaction. (p. 343)

Key Terms

Salaries Expense

Employees, ranging from design engineers at Ford Motor Company to the waitresses at a neighborhood coffee shop, expect their payroll checks to arrive on time and to be accurate. You have learned that various amounts are withheld from employees' earnings for taxes and voluntary deductions. When the payroll register is complete, the payroll entry is journalized and the amounts are posted to the general ledger.

After the payroll has been prepared, a check is written to transfer the *total net pay* amount from the regular checking account of a business to its payroll checking account. The check is deposited in the payroll account, and all payroll checks for the period are written on the payroll account. The next step is to record the payment of the payroll in the accounting records.



Analyzing and Journalizing the Payroll

How Do You Journalize Payroll?

Let's analyze the effect of payroll on the employer's accounting system. Each pay period, the business pays out a certain amount of money to its employees in the form of wages and salaries. Employee earnings are a normal operating expense of a business. The expense account often used to record employees' earnings is called **Salaries Expense**. To increase the amount in **Salaries Expense**, the account is debited for the gross earnings for the pay period.

The business withholds various deductions, such as income and FICA taxes, from gross earnings each pay period. Employees also request voluntary withholdings such as premiums for insurance coverage. The employer retains the amounts withheld until it is time to pay the appropriate government agencies and businesses. The amounts withheld but not yet paid are liabilities of the business. Remember, a liability is an amount *owed* by a business.

As You READ

Instant Recall

Total Earnings

Gross Pay
– Total Payroll Deductions
Net Pay

Each type of payroll liability is recorded in a separate account.

Type of Deduction	Ledger Account
Federal income tax	Employees' Federal Income Tax Payable
Social security tax	Social Security Tax Payable
Medicare tax	Medicare Tax Payable
Hospital insurance premiums	Hospital Insurance Premiums Payable

Depending on the business, it is possible that several different types of deductions are recorded in the Other Deductions column of the payroll register. If so, the total for each type of deduction is credited to the appropriate liability account. Refer to the Roadrunner Delivery Service payroll register shown in **Figure 12–5** on page 320. The deductions that may appear in the Other Deductions column each have an account in Roadrunner's general ledger:

- U.S. Savings Bonds Payable
- Credit Union Payable
- Union Dues Payable
- United Way Payable

The credit part of the payroll journal entry is made up of several items. The largest item is for net pay. Net pay is the amount actually paid out in cash by the employer to the employees. **Cash in Bank** is credited for total net pay.

The difference between gross earnings and net pay equals the employer's payroll liabilities. Each payroll liability account is separately credited for the total amount shown on the payroll register.

As You READ

In Your Own Words

Salaries Expense
 "Employee earnings are a normal operating expense of the business."
 What does this mean?

Business Transaction

Roadrunner's payroll register in **Figure 12–5** on page 320 is the source document for the payroll journal entry.

ANALYSIS Identify

Classify

+/-

1. The accounts **Salaries Expense, Employees' Federal Income Tax Payable, Employees' State Income Tax Payable, Social Security Tax Payable, Medicare Tax Payable, Hospital Insurance Premiums Payable, U.S. Savings Bonds Payable,** and **Cash in Bank** are affected.
2. **Salaries Expense** is an expense account. **Employees' Federal Income Tax Payable, Employees' State Income Tax Payable, Social Security Tax Payable, Medicare Tax Payable, Hospital Insurance Premiums Payable,** and **U.S. Savings Bonds Payable** are liability accounts. **Cash in Bank** is an asset account.
3. **Salaries Expense** is increased by \$1,350.25; **Employees' Federal Income Tax Payable** is increased by \$100.00; **Employees' State Income Tax Payable** is increased by \$27.01; **Social Security Tax Payable** is increased by \$83.73; **Medicare Tax Payable** is increased by \$19.57; **Hospital Insurance Premiums Payable** is increased by \$23.65; **U.S. Savings Bonds Payable** is increased by \$25.00; **Cash in Bank** is decreased by \$1,071.29



DEBIT-CREDIT RULE

- Increases in expense accounts are recorded as debits. Debit **Salaries Expense** for \$1,350.25.
- Decreases in asset accounts are recorded as credits. Credit **Cash in Bank** for \$1,071.29. Increases in liability accounts are recorded as credits. Credit **Employees' Federal Income Tax Payable** for \$100; **Employees' State Income Tax Payable** for \$27.01; **Social Security Tax Payable** for \$83.73; **Medicare Tax Payable** for \$19.57; **Hospital Insurance Premiums Payable** for \$23.65; **U.S. Savings Bonds Payable** for \$25.00.

T ACCOUNTS

6.

Salaries Expense		Employees' Federal Income Tax Payable	
Debit	Credit	Debit	Credit
+	-	-	+
1,350.25			100.00

Employees' State Income Tax Payable		Social Security Tax Payable	
Debit	Credit	Debit	Credit
-	+	-	+
	27.01		83.73

Medicare Tax Payable		Hospital Insurance Premiums Payable	
Debit	Credit	Debit	Credit
-	+	-	+
	19.57		23.65

U.S. Savings Bonds Payable		Cash in Bank	
Debit	Credit	Debit	Credit
-	+	+	-
	25.00		1,071.29

JOURNAL ENTRY

7.

GENERAL JOURNAL					PAGE	29
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	20--					1
2	June 30	Salaries Expense		1 350 25		2
3		Emplys' Fed. Inc. Tax Pay.			100 00	3
4		Emplys' State Inc. Tax Pay.			27 01	4
5		Social Sec. Tax Pay.			83 73	5
6		Medicare Tax Pay.			19 57	6
7		Hosp. Ins. Premiums Pay.			23 65	7
8		U.S. Savings Bonds Pay.			25 00	8
9		Cash in Bank			1 071 29	9
10		Pay. Reg. 6/30—Ck 186				10
11						11



The payroll expense is \$1,350.25. The employees receive \$1,071.29 in cash (net pay). Later the business will pay the federal government \$203.30 (\$100.00 federal income tax, \$83.73 social security tax, and \$19.57 Medicare tax). The business will also pay the state \$27.01 for state income tax. A check for \$23.65 will be written to the insurance company for hospital insurance premiums. Finally, a check for \$25 will be sent to the federal government to purchase savings bonds.

These liabilities are the result of deductions that were taken from employees' earnings. In the next section, you will learn about the payroll tax liabilities of the employer.

Posting the Payroll Entry

How Do You Post the Payroll?

Figure 13–1 shows the general journal entry and the individual ledger accounts after posting.

GENERAL JOURNAL						PAGE	29
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT			
1 20--						1	
2 June 30	Salaries Expense	514	1 3 5 0 25			2	
3	Employees' Fed. Inc. Tax Pay.	210		1 0 0 00		3	
4	Employees' State Inc. Tax Pay.	215		2 7 0 1		4	
5	Social Security Tax Pay.	220		8 3 7 3		5	
6	Medicare Tax Pay.	225		1 9 5 7		6	
7	Hosp. Ins. Premiums Pay.	230		2 3 6 5		7	
8	U.S. Savings Bonds Pay.	235		2 5 0 0		8	
9	Cash in Bank	101		1 0 7 1 29		9	
10	Payroll Reg. 6/30—Ck. 186					10	
11						11	

ACCOUNT <i>Salaries Expense</i>				ACCOUNT NO. <i>514</i>			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
20--							
June 23	Balance	✓			34 6 8 3 10		
30		G29	1 3 5 0 25		36 0 3 3 35		

ACCOUNT <i>Employees' Federal Income Tax Payable</i>				ACCOUNT NO. <i>210</i>			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
20--							
June 23	Balance	✓				2 9 3 18	
30		G29		1 0 0 00		3 9 3 18	

CONTINUE

Figure 13–1 Posting the Payroll Entry to the General Ledger

As You READ

Key Point

The Payroll Entry

Gross pay:
debited to **Salaries Expense**

Payroll deductions:
credited to liability accounts

Net pay:
credited to **Cash in Bank**

ACCOUNT <i>Employees' State Income Tax Payable</i>				ACCOUNT NO. <u>215</u>			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
20--							
June 23	Balance	✓				3 21 12	
30		G29		27 01		3 48 13	

ACCOUNT <i>Social Security Tax Payable</i>				ACCOUNT NO. <u>220</u>			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
20--							
June 23	Balance	✓				2 50 35	
30		G29		83 73		3 34 08	

ACCOUNT <i>Medicare Tax Payable</i>				ACCOUNT NO. <u>225</u>			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
20--							
June 23	Balance	✓				58 63	
30		G29		19 57		78 20	

ACCOUNT <i>Hospital Insurance Premiums Payable</i>				ACCOUNT NO. <u>230</u>			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
20--							
June 23	Balance	✓				4 73	
30		G29		23 65		28 38	

ACCOUNT <i>U.S. Savings Bonds Payable</i>				ACCOUNT NO. <u>235</u>			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
20--							
June 23	Balance	✓				75 00	
30		G29		25 00		100 00	

ACCOUNT <i>Cash in Bank</i>				ACCOUNT NO. <u>101</u>			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
20--							
June 23	Balance	✓			19 610 30		
30		G29		1 071 29	18 539 01		

Figure 13-1 Posting the Payroll Entry to the General Ledger (continued)



AFTER
You READ**Reinforce the Main Idea**

Use an organizer like this one to express the payroll journal entry as an equation. Use broad account categories. (For example, use *liabilities* instead of listing all possible accounts.) Draw arrows (\uparrow / \downarrow) in each box to show whether the account category increases or decreases.

	=		+	
--	---	--	---	--

**Do the Math**

You are the payroll clerk for Queen City Motors. As you review the payroll records, you notice that two employees are nearing the \$90,000 limit for social security tax. As commission-only sales employees, Marcie Laliberte and Kevin Hogan have earned \$87,200 and \$88,700, respectively.

1. How much more must Marcie and Kevin earn in commission to reach the social security tax limit?
2. If Marcie and Kevin are paid 7% commission on each sale, how much more in sales must each make to reach the social security tax limit?

**Problem 13–1 Determining Payroll Amounts**

SweepIt Cleaning Service reported the following amounts for the week ending November 4. The total amount earned by all employees is \$2,193.40. The amount withheld for federal income tax is \$263.00. Social security tax is \$136.00, and Medicare tax is \$31.80. Three of the employees each have \$11.25 deducted for hospital insurance. The amount withheld for state income tax is \$38.70.

Instructions Answer the following questions concerning the November 4 payroll for SweepIt Cleaning Service.

1. What amount is recorded in the **Salaries Expense** account?
2. What amount is recorded in the **Medicare Tax Payable** account?
3. What is the total amount of liabilities for the weekly payroll?
4. What amount is entered in the **Hospital Insurance Premiums Payable** account?
5. What amount is recorded as a credit for the **Cash in Bank** account?



SECTION 2

Employer's Payroll Taxes

BEFORE YOU READ

Main Idea

Employers must pay taxes in addition to the amounts withheld from their employees. This is an expense for the business.

Read to Learn...

- ▶ how to compute payroll tax expense. (p. 346)
- ▶ how to journalize payroll tax expense. (p. 347)
- ▶ how to post payroll tax expense. (p. 349)

Key Terms

Federal Unemployment Tax Act (FUTA)
State Unemployment Tax Act (SUTA)
unemployment taxes
Payroll Tax Expense

In Section 1 you learned how to journalize and post the payroll entry. This entry, in part, records taxes that employees are required to pay on their earnings. Your local florist, employing designers, delivery workers, and sales clerks, must also pay taxes on these workers' earnings. These amounts need to be calculated, journalized, and posted.

Computing Payroll Tax Expenses

Which Payroll Taxes Are Paid by the Employer?

In addition to withholding taxes from employees' wages, the employer *pays* taxes on these wages. The employer's taxes, considered operating expenses of the business, consist of the employer's FICA taxes, the federal unemployment tax, and the state unemployment tax.

The Employer's FICA Taxes

Under the Federal Insurance Contributions Act, both the employee and the employer pay FICA taxes. As you recall, the employer withholds a percentage of gross earnings for social security and Medicare taxes. In addition, the employer pays FICA taxes using the same percentage of gross earnings. Recall that the current rates are 6.2% for social security tax and 1.45% for Medicare tax.

The employer and the employee pay social security tax on gross earnings up to the maximum taxable limit per employee (\$90,000 in 2005). The employer and the employee pay Medicare tax on all gross earnings; there is no maximum taxable limit. The payroll clerk checks the accumulated earnings on each employee's earnings record to determine whether that employee has reached the maximum taxable amount. When an employee reaches the limit, the social security tax is no longer computed.

In determining social security tax and Medicare tax for both employee and employer, it makes no difference whether an employee is full-time, part-time, temporary, or permanent. A full-time adult employee and a student employed part-time only for the summer are subject to the same taxes.

At Roadrunner Delivery Service for the week ending June 30, the employees' total social security taxes are \$83.73 and total Medicare taxes are \$19.57. The employer's taxes on the total gross earnings are \$83.72 (6.2% of \$1,350.25) and \$19.58 (1.45% of \$1,350.25), respectively. Notice that the social security tax for the employees (\$83.73) and the employer (\$83.72) do

As You READ

Key Point

FICA Taxes

Both employees and employers pay the same amount of FICA taxes.

not match. The same situation exists for the Medicare tax. This is because the employer's tax is calculated on the total gross earnings (\$1,350.25). The employees' taxes are calculated on each employee's gross earnings and the individual tax amounts are totaled. This may result in small differences between the employees' and employer's taxes.

Federal and State Unemployment Taxes

Two unemployment laws, the **Federal Unemployment Tax Act (FUTA)** and the **State Unemployment Tax Act (SUTA)**, require employers to pay unemployment taxes. **Unemployment taxes** are collected to provide funds for workers who are temporarily unemployed. Unemployment taxes are based on a percentage of the employees' gross earnings.

The employer pays both federal and state unemployment taxes. The maximum federal unemployment tax is 6.2% on the first \$7,000 of an employee's annual wages. State unemployment tax rates and maximum taxable amounts vary among states. Employers may deduct up to 5.4% of the state unemployment taxes from federal unemployment taxes. Most employers, therefore, pay a federal tax of .8% (6.2% – 5.4%) of taxable gross earnings.

In a few states, employees are also required to pay unemployment taxes. The percentage amount varies among these states.

For Roadrunner, since none of the employees has reached the maximum taxable amount, the federal unemployment tax for the week ended June 30 is \$10.80 ($\$1,350.25 \times .008$, or .8%). The state unemployment tax is \$72.91 ($\$1,350.25 \times .054$, or 5.4%).



Journalizing the Employer Payroll Taxes

How Do You Journalize Payroll Tax Expense?

The employer's payroll taxes are business expenses recorded in the **Payroll Tax Expense** account. Until paid, the employer's payroll taxes are liabilities of the business.

Use the **Social Security Tax Payable** and the **Medicare Tax Payable** accounts to record both the employees' and the employer's FICA taxes. Record the employer's unemployment taxes in the **Federal Unemployment Tax Payable** and **State Unemployment Tax Payable** accounts.

In the next business transaction, we will analyze the accounts affected when an employer pays its payroll taxes. This entry takes place in each payroll period.

As You **READ**

It's Not What It Seems

Unemployment Taxes

Unemployment taxes are not paid by the people who might become unemployed. These taxes are paid by employers.

Business Transaction

Roadrunner's payroll register in Figure 12–5 on page 320 is the source document for the payroll tax journal entry.

ANALYSIS *Identify*

Classify

+/-

1. The accounts **Payroll Tax Expense**, **Social Security Tax Payable**, **Medicare Tax Payable**, **State Unemployment Tax Payable**, and **Federal Unemployment Tax Payable** are affected.
2. **Payroll Tax Expense** is an expense account. **Social Security Tax Payable**, **Medicare Tax Payable**, **State Unemployment Tax Payable**, and **Federal Unemployment Tax Payable** are liability accounts.
3. **Payroll Tax Expense** is increased by \$187.01; **Social Security Tax Payable** is increased by \$83.72; **Medicare Tax Payable** is increased by \$19.58; **State Unemployment Tax Payable** is increased by \$72.91; **Federal Unemployment Tax Payable** is increased by \$10.80.

DEBIT-CREDIT RULE

4. Increases in expense accounts are recorded as debits. Debit **Payroll Tax Expense** for \$187.01.
5. Increases in liability accounts are recorded as credits. Credit **Social Security Tax Payable** for \$83.72; **Medicare Tax Payable** for \$19.58; **State Unemployment Tax Payable** for \$72.91; **Federal Unemployment Tax Payable** for \$10.80.

T ACCOUNTS

6.

Payroll Tax Expense		Social Security Tax Payable	
Debit	Credit	Debit	Credit
+	-	-	+
187.01	-	-	83.72

Medicare Tax Payable		State Unemployment Tax Payable	
Debit	Credit	Debit	Credit
-	+	-	+
-	19.58	-	72.91

Federal Unemployment Tax Payable	
Debit	Credit
-	+
-	10.80

JOURNAL ENTRY

7.

GENERAL JOURNAL						PAGE	30
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT		
1	20--						1
2	June 30	Payroll Tax Expense		187.01			2
3		Social Security Tax Pay.			83.72		3
4		Medicare Tax Pay.			19.58		4
5		State Unemplymnt. Tax Pay.			72.91		5
6		Fed. Unemplymnt. Tax Pay.			10.80		6
7		Payroll Reg. 6/30					7

Posting Payroll Taxes to the General Ledger

How Do You Post Payroll Tax Expense?

Figure 13–2 shows the individual ledger accounts after posting the payroll taxes entry.

Notice that the **Social Security Tax Payable** and the **Medicare Tax Payable** accounts have two entries for the June 30 payroll. The first entry is the amount of taxes withheld from the *employees'* earnings. The second entry is the amount of taxes paid by the *employer*.

ACCOUNT <i>Payroll Tax Expense</i>				ACCOUNT NO. <i>520</i>			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
20--							
June 23	Balance	✓			4 7 8 4	10	
30		G30	1 8 7 0 1		4 9 7 1	11	

ACCOUNT <i>Social Security Tax Payable</i>				ACCOUNT NO. <i>220</i>			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
20--							
June 23	Balance	✓				2 5 0 35	
30		G29		8 3 73		3 3 4 08	
30		G30		8 3 72		4 1 7 80	

ACCOUNT <i>Medicare Tax Payable</i>				ACCOUNT NO. <i>225</i>			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
20--							
June 23	Balance	✓				5 8 63	
30		G29		1 9 57		7 8 20	
30		G30		1 9 58		9 7 78	

ACCOUNT <i>State Unemployment Tax Payable</i>				ACCOUNT NO. <i>240</i>			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
20--							
June 23	Balance	✓				7 9 3 41	
30		G30		7 2 91		8 6 6 32	

ACCOUNT <i>Federal Unemployment Tax Payable</i>				ACCOUNT NO. <i>245</i>			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
20--							
June 23	Balance	✓				1 1 8 80	
30		G30		1 0 80		1 2 9 60	

Figure 13–2 General Ledger Accounts after Posting the Payroll Taxes Entry

CULTURAL Diversity Communication

“Yes” does not mean “yes” in every culture. In Saudi Arabia “yes” usually means “possibly.” When the Japanese say “yes,” it can mean “Yes, I hear you,” not “Yes, I agree with you.” In Japan people prefer not to say “no” because being negative is impolite and disrupts harmony.



AFTER
You READ

Reinforce the Main Idea

Employer payroll taxes are paid at different rates. Use a chart like this one to show the rates of the employer payroll taxes.

Tax	Employer Payroll Tax Rates	
	Percent of Total Earnings	Earnings Limit
Social security		
Federal unemployment		
Medicare		
State unemployment		



Do the Math

Calculate the employer's federal unemployment tax rate for each of the following states:

State	State Unemployment Tax Rate
State A	1.5%
State B	3.0%
State C	4.5%
State D	5.4%
State E	6.0%



Problem 13-2 Calculating Employer's Payroll Taxes

For the week ending June 30, EZ Copy Center's payroll has total gross earnings of \$4,836.60. Calculate the employer's payroll taxes. Use the following percentages:

Social security tax	6.2%	Federal unemployment tax	0.8%
Medicare tax	1.45%	State unemployment tax	5.4%



Problem 13-3 Identifying Entries for Payroll Liabilities

The following list includes several payroll-related items used in preparing the weekly payroll for Outdoor Adventures. These items are included in either the entry to record the payroll or the entry to record the employer's payroll taxes.

Employees' federal income tax	Employees' state income tax
Employer's social security tax	Union dues
U.S. savings bonds	Employees' social security tax
Employer's Medicare tax	State unemployment tax
Federal unemployment tax	Employees' Medicare tax

Instructions Use the form provided in your working papers. Place a check mark in the column that describes the entry in which the item is recorded:

- entry to record the payroll
- entry to record the employer's payroll taxes.

Tax Liability Payments and Tax Reports

After journalizing and posting the payroll entries, a business pays the amounts owed to government agencies and other institutions.

Paying the Payroll Tax Liabilities

How and When Do Employers Pay Their Liabilities?

Payroll liabilities are paid at regular intervals.

FICA and Federal Income Taxes

A business makes one payment combining (1) social security and Medicare taxes (for both employees and employer), and (2) employees' federal income taxes withheld. It makes the payment at an authorized financial institution or Federal Reserve Bank. Most small businesses, like Roadrunner, make this payment monthly. It is due by the 15th day of the month following the payroll month. Payment for the month ending June 30 is due by July 15. Larger businesses make the payment every two weeks.

Many small businesses prepare and send a **Form 8109** with the check. The Form 8109, or *Federal Tax Deposit Coupon*, identifies the type of tax and the tax period. Notice the ovals on the right side of Form 8109 in **Figure 13-3**. The 941 oval indicates FICA and federal income taxes. The 2nd Quarter oval indicates the period ending June 30.

AMOUNT OF DEPOSIT (Do NOT type, please print.)		Darken only one TYPE OF TAX		Darken only one TAX PERIOD	
DOLLARS					
9	0	<input checked="" type="checkbox"/> 941	<input type="checkbox"/> 945	<input type="checkbox"/> 1st Quarter	
8	7	<input type="checkbox"/> 990-C	<input type="checkbox"/> 1120	<input checked="" type="checkbox"/> 2nd Quarter	
6	6	<input type="checkbox"/> 943	<input type="checkbox"/> 990-T	<input type="checkbox"/> 3rd Quarter	
		<input type="checkbox"/> 720	<input type="checkbox"/> 990-PF	<input type="checkbox"/> 4th Quarter	
		<input type="checkbox"/> CT-1	<input type="checkbox"/> 1042		
		<input type="checkbox"/> 940			
				35	

FOR BANK USE IN MICR ENCODING

BEFORE YOU READ

Main Idea

Employers make tax deposits and send payroll reports to the government.

Read to Learn...

- how employers send payroll tax payments to the government. (p. 351)
- how employers report payroll information to the government. (p. 357)

Key Terms

Form 8109
Electronic Federal Tax Payment System (EFTPS)
Form W-2
Form W-3
Form 941
Form 940

Figure 13-3 Federal Tax Deposit Coupon (Form 8109) for FICA and Federal Income Taxes

The **Electronic Federal Tax Payment System (EFTPS)** is used by larger businesses to make deposits. Eventually even small businesses will use EFTPS.

Business Transaction

Roadrunner pays \$908.76 payroll tax liabilities July 15 including \$393.18 employees' federal income taxes, \$417.80 social security taxes, and \$97.78 Medicare taxes (refer to ledger accounts in **Figures 13-1** and **13-2**).

ANALYSIS Identify**Classify**

+/-

1. The accounts **Employees' Federal Income Tax Payable**, **Social Security Tax Payable**, **Medicare Tax Payable**, and **Cash in Bank** are affected.
2. **Employees' Federal Income Tax Payable**, **Social Security Tax Payable**, and **Medicare Tax Payable** are liability accounts. **Cash in Bank** is an asset account.
3. **Employees' Federal Income Tax Payable** is decreased by \$393.18; **Social Security Tax Payable** is decreased by \$417.80; **Medicare Tax Payable** is decreased by \$97.78; **Cash in Bank** is decreased by \$908.76.

DEBIT-CREDIT RULE

4. Decreases in liability accounts are recorded as debits. Debit **Employees' Federal Income Tax Payable** for \$393.18; **Social Security Tax Payable** for \$417.80; **Medicare Tax Payable** for \$97.78.
5. Decreases in asset accounts are recorded as credits. Credit **Cash in Bank** for \$908.76.

T ACCOUNTS

Employees' Federal Income Tax Payable		Social Security Tax Payable	
Debit — 393.18	Credit +	Debit — 417.80	Credit +
Medicare Tax Payable		Cash in Bank	
Debit — 97.78	Credit +	Debit +	Credit — 908.76

JOURNAL ENTRY

7.

GENERAL JOURNAL						PAGE <u>31</u>
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	20--					1
2	July 15	Emplys' Fed. Inc. Tax Pay.		393.18		2
3		Social Security Tax Pay.		417.80		3
4		Medicare Tax Pay.		97.78		4
5		Cash in Bank			908.76	5
6		Check 208				6

State and Local Income Taxes

At regular intervals businesses pay the amounts withheld for state and local income taxes. Each state and local government determines how and when the payments are made and what reports are filed.

Business Transaction

Roadrunner pays \$348.13 to the state. This is the amount of state income tax withheld from employees' earnings, as indicated in the **Employees' State Income Tax Payable** account shown in **Figure 13-1**.

ANALYSIS *Identify*
Classify
+/-

1. The accounts **Employees' State Income Tax Payable** and **Cash in Bank** are affected.
2. **Employees' State Income Tax Payable** is a liability account. **Cash in Bank** is an asset account.
3. **Employees' State Income Tax Payable** is decreased by \$348.13. **Cash in Bank** is decreased by \$348.13.

DEBIT-CREDIT RULE

4. Decreases in liabilities are debits. Debit **Employees' State Income Tax Payable** for \$348.13.
5. Decreases in assets are credits. Credit **Cash in Bank** for \$348.13.

T ACCOUNTS

6.

Employees' State Income Tax Payable		Cash in Bank	
Debit	Credit	Debit	Credit
-	+	+	-
348.13			348.13

JOURNAL ENTRY

7.

GENERAL JOURNAL						PAGE	32
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT		
1	20--						1
2	July 15	Emplys' State Inc. Tax Pay.		348.13			2
3		Cash in Bank			348.13		3
4		Check 209					4

Federal Unemployment Taxes

Most businesses pay the FUTA tax quarterly. If a business has accumulated FUTA taxes of less than \$100, only one annual payment is necessary.

Business Transaction

Roadrunner pays \$129.60 for FUTA taxes. This is the balance of the Federal Unemployment Tax Payable account shown in Figure 13-2.

ANALYSIS *Identify*
Classify
+/-

1. **Federal Unemployment Tax Payable** and **Cash in Bank** are affected.
2. **Federal Unemployment Tax Payable** is a liability account. **Cash in Bank** is an asset account.
3. **Federal Unemployment Tax Payable** is decreased by \$129.60. **Cash in Bank** is decreased by \$129.60.

DEBIT-CREDIT RULE

4. Decreases in liabilities are debits. Debit **Federal Unemployment Tax Payable** for \$129.60.
5. Decreases in assets are credits. Credit **Cash in Bank** for \$129.60.

T ACCOUNTS

6. Federal Unemployment Tax Payable		Cash in Bank	
Debit	Credit	Debit	Credit
-	+	+	-
129.60			129.60

JOURNAL ENTRY



7. GENERAL JOURNAL						PAGE 33
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	20--					1
2	July 15	Fed. Unemployment Tax Pay.		129.60		2
3		Cash in Bank			129.60	3
4		Check 210				4

A Form 8109 is prepared and sent with the check for the FUTA tax. To indicate that FUTA taxes are being paid, the 940 oval is filled in. **Figure 13-4** shows the Form 8109 that Roadrunner sends with the FUTA payment.

AMOUNT OF DEPOSIT (Do NOT type, please print.)
DOLLARS: 129 CENTS: 60

TAX YEAR MONTH → 06

EMPLOYER IDENTIFICATION NUMBER → 318042398

BANK NAME/DATE STAMP: ROADRUNNER DELIVERY SERVICE, 155 GATEWAY BLVD., SACRAMENTO CA 94230

Darken only one TYPE OF TAX: 940 (filled in)

Darken only one TAX PERIOD: 35 (filled in)

Federal Tax Deposit Coupon Form 8109

Figure 13-4 Federal Tax Deposit Coupon (Form 8109) for Federal Unemployment Taxes

State Unemployment Taxes

State unemployment taxes are usually paid on a quarterly basis.

Business Transaction

Roadrunner pays \$866.32 to the state, as shown in *Figure 13-2*.

ANALYSIS Identify Classify

+/-

1. **State Unemployment Tax Payable** and **Cash in Bank** are affected.
2. **State Unemployment Tax Payable** is a liability account. **Cash in Bank** is an asset account.
3. **State Unemployment Tax Payable** is decreased by \$866.32. **Cash in Bank** is decreased by \$866.32.

DEBIT-CREDIT RULE

4. Decreases in liability accounts are recorded as debits. Debit **State Unemployment Tax Payable** for \$866.32.
5. Decreases in asset accounts are recorded as credits. Credit **Cash in Bank** for \$866.32.

T ACCOUNTS

6.

State Unemployment Tax Payable		Cash in Bank	
Debit – 866.32	Credit +	Debit +	Credit – 866.32

JOURNAL ENTRY

7.

GENERAL JOURNAL						PAGE 34
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	20--					1
2	July 15	State Unemployment Tax Pay.		866.32		2
3		Cash in Bank			866.32	3
4		Check 211				4

Other Payroll Liabilities

Employers also make payment for employees' voluntary deductions.

Business Transaction

On July 15 Roadrunner pays \$28.38 for hospital insurance premiums. (Refer to Figure 13–1.)

ANALYSIS Identify

Classify

+/-

1. The accounts **Hospital Insurance Premiums Payable** and **Cash in Bank** are affected.
2. **Hospital Insurance Premiums Payable** is a liability account. **Cash in Bank** is an asset account.
3. **Hospital Insurance Premiums Payable** is decreased by \$28.38. **Cash in Bank** is decreased by \$28.38.

DEBIT-CREDIT RULE

4. Decreases in liabilities are debits. Debit **Hospital Insurance Premiums Payable** for \$28.38.
5. Decreases in assets are credits. Credit **Cash in Bank** for \$28.38.

T ACCOUNTS

6.

Hospital Insurance Premiums Payable		Cash in Bank	
Debit – 28.38	Credit +	Debit +	Credit – 28.38

JOURNAL ENTRY

7.

GENERAL JOURNAL						PAGE 35
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	20--					1
2	July 15	Hospital Ins. Premiums Pay.		28.38		2
3		Cash in Bank			28.38	3
4		Check 212				4

Posting the Payment of Payroll Liabilities

After the payments for the employer's payroll liabilities have been journalized, the entries are posted to the appropriate general ledger accounts. **Figure 13–5** shows Roadrunner's general ledger accounts after posting.

ACCOUNT			<i>Employee's Federal Income Tax Payable</i>		ACCOUNT NO. 210		
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
20--							
June 23	Balance	✓				293 18	
30		G29		100 00		393 18	
July 15		G31	393 18				

ACCOUNT			<i>Employee's State Income Tax Payable</i>		ACCOUNT NO. 215		
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
20--							
June 23	Balance	✓				321 12	
30		G29		27 01		348 13	
July 15		G32	348 13				

ACCOUNT			<i>Social Security Tax Payable</i>		ACCOUNT NO. 220		
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
20--							
June 23	Balance	✓				250 35	
30		G29		83 73		334 08	
30		G30		83 72		417 80	
July 15		G31	417 80				

ACCOUNT			<i>Medicare Tax Payable</i>		ACCOUNT NO. 225		
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
20--							
June 23	Balance	✓				58 63	
30		G29		19 57		78 20	
30		G30		19 58		97 78	
July 15		G31	97 78				

ACCOUNT			<i>Hospital Insurance Premium Payable</i>		ACCOUNT NO. 230		
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
20--							
June 23	Balance	✓				4 73	
30		G29		23 65		28 38	
July 15		G35	28 38				

Figure 13–5 General Ledger Accounts after Posting of Payroll Liabilities Payments



ACCOUNT <i>State Unemployment Tax Payable</i>				ACCOUNT NO. <i>240</i>			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
20--							
June 23	Balance	✓				793.41	
	30	G30		72.91		866.32	
July 15		G34	866.32				

ACCOUNT <i>Federal Unemployment Tax Payable</i>				ACCOUNT NO. <i>245</i>			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
20--							
June 23	Balance	✓				118.80	
	30	G30		10.80		129.60	
July 15		G33	129.60				

Figure 13-5 General Ledger Accounts after Posting of Payroll Liabilities Payments (continued)

Preparing Payroll Tax Forms

How Does the Government Receive Payroll Information?

Employers must complete a variety of payroll-related tax forms.

Form	Name of Form	When Filed
W-2	Wage and Tax Statement	Annually
W-3	Transmittal of Wage and Tax Statements	Annually
941	Employer's Quarterly Federal Tax Return	Quarterly
940	Employer's Annual Federal Unemployment (FUTA) Tax Return	Annually

Forms W-2 and W-3

The Wage and Tax Statement, **Form W-2**, summarizes an employee's earnings and withholdings for the calendar year. Form W-2 reports (1) gross earnings, (2) federal income tax withheld, (3) FICA taxes withheld, and (4) state and local income taxes withheld.

Each employee receives a Form W-2 by January 31 of the following year. Employees use Form W-2 to prepare their individual income tax returns. **Figure 13-6** on page 358 shows the Form W-2 for Emily Kardos.

Employers prepare many copies of Form W-2. The employer sends Copy A to the IRS and gives Copies B and C to the employee. The employer keeps Copy D. Additional copies are sent to city or state government if necessary.

The employer files **Form W-3**, Transmittal of Wage and Tax Statements, with the federal government along with the Forms W-2. Form W-3 summarizes the information on the Forms W-2. Forms W-2 and W-3 are due by February 28. The federal government uses the Form W-2 information to check individual income tax returns. **Figure 13-7** on page 358 shows Roadrunner's Form W-3.

a Control number		OMB No. 1545-0008	
b Employer's identification number 31-8042398		1 Wages, tips, other compensation 8,246.00	2 Federal income tax withheld 664.00
c Employer's name, address, and ZIP code Roadrunner Delivery Service 155 Gateway Blvd. Sacramento, CA 94230		3 Social security wages 8,246.00	4 Social security tax withheld 511.25
		5 Medicare wages and tips 8,246.00	6 Medicare tax withheld 119.57
		7 Social security tips	8 Allocated tips
d Employee's social security number 201-XX-XXXX		9 Advance EIC payment	10 Dependent care benefits
e Employee's name, address, and ZIP code Emily M. Kardos 809 East Main Street Sacramento, CA 94230		11 Nonqualified plans	12 Benefits included in box 1
		13	14 Other
15 Statutory employee <input type="checkbox"/> Deceased <input type="checkbox"/> Pension plan <input type="checkbox"/> Legal rep. <input type="checkbox"/> Hshld. emp. <input type="checkbox"/> Subtotal <input type="checkbox"/> Deferred compensation <input type="checkbox"/>			
16 State CA	Employer's state I.D. no. 484972	17 State wages, tips, etc. 8,246.00	18 State income tax 128.74
		19 Locality name	20 Local wages, tips, etc.
		21 Local income tax	

Form **W-2** Wage and Tax Statement 20--
Copy 1 For State, City, or Local Tax Department

Department of the Treasury – Internal Revenue Service

Figure 13-6 Form W-2 Wage and Tax Statement

DO NOT STAPLE

a Control number 33333		For Official Use Only ▶ OMB No. 1545-0008	
b Kind of Payer 941 <input checked="" type="checkbox"/> Military 943 <input type="checkbox"/> CT-1 <input type="checkbox"/> Hshld. emp. <input type="checkbox"/> Medicare gov. emp. <input type="checkbox"/>	1 Wages, tips, other compensation 67,210.35		2 Federal income tax withheld 5,396.00
	3 Social security wages 67,210.35		4 Social security tax withheld 4,167.04
c Total number of Forms W-2 5	d Establishment number 7210	5 Medicare wages and tips 67,210.35	6 Medicare tax withheld 974.55
e Employer identification number 31-8042398		7 Social security tips	8 Allocated tips
f Employer's name Roadrunner Delivery Service		9 Advance EIC payments	10 Dependent care benefits
g Employer's address and ZIP code 155 Gateway Blvd. Sacramento, CA 94230		11 Nonqualified plans	12 Deferred compensation
		13	14
h Other EIN used this year		15 Income tax withheld by third-party payer	
i Employer's state I.D. No.			
Contact person	Telephone number ()	Fax number ()	E-mail address

Under penalties of perjury, I declare that I have examined this return and accompanying documents, and, to the best of my knowledge and belief, they are true, correct, and complete.

Signature ▶ *Maria Sanchez* Title ▶ *Owner* Date ▶ *1/29/20--*

Form **W-3** Transmittal of Wage and Tax Statements

Department of the Treasury
Internal Revenue Service

Figure 13-7 Transmittal of Wage and Tax Statements

Forms 941 and 940

Form 941, illustrated in Figure 13-8, is the employer's quarterly federal tax return that reports accumulated amounts of FICA and federal income taxes withheld from employees' earnings, as well as FICA tax owed by the employer. The employer's federal unemployment tax is reported annually on **Form 940**.



Employer's Quarterly Federal Tax Return

▶ See separate instructions for information on completing this return.

Please type or print.

Enter state code for state in which deposits were made ONLY if different from state in address to the right (see page 3 of instructions).

Name (as distinguished from trade name)
Roadrunner Delivery Service
Trade name, if any

Date quarter ended
June 30, 20--
Employer identification number
31-8042398
City, state, and ZIP code
Sacramento, CA 94230

OMB No. 1545-0029

T
FF
FD
FP
I
T

Address (number and street)
155 Gateway Blvd.

If address is different from prior return, check here ▶

IRS Use

1	1	1	1	1	1	1	1	1	1	2	3	3	3	3	3	3	3	3	4	4	4	5	5	5
6	7	8	8	8	8	8	8	8	8	8	9	9	9	9	9	9	9	9	10	10	10	10	10	10

If you do not have to file returns in the future, check here ▶ and enter date final wages paid ▶
If you are a seasonal employer, see **Seasonal employers** on page 1 of the instructions and check here ▶

1	Number of employees in the pay period that includes March 12th . . . ▶ 1		
2	Total wages and tips, plus other compensation	9,252	96
3	Total income tax withheld from wages, tips, and sick pay	747	64
4	Adjustment of withheld income tax for preceding quarters of calendar year	0	00
5	Adjusted total of income tax withheld (line 3 as adjusted by line 4—see instructions)	773	55
6	Taxable social security wages	6a	9,252 96 × 12.4% (.124) = 6b 1,147 37
	Taxable social security tips	6c	× 12.4% (.124) = 6d 0 00
7	Taxable Medicare wages and tips	7a	9,252 96 × 2.9% (.029) = 7b 268 33
8	Total social security and Medicare taxes (add lines 6b, 6d, and 7b). Check here if wages are not subject to social security and/or Medicare tax ▶ <input type="checkbox"/>	8	1,415 70
9	Adjustment of social security and Medicare taxes (see instructions for required explanation) Sick Pay \$ _____ ± Fractions of Cents \$ _____ ± Other \$ _____ =	9	0 00
10	Adjusted total of social security and Medicare taxes (line 8 as adjusted by line 9—see instructions)	10	1,415 70
11	Total taxes (add lines 5 and 10)	11	2,163 34
12	Advance earned income credit (EIC) payments made to employees	12	0 00
13	Net taxes (subtract line 12 from line 11). This should equal line 17, column (d) below (or line D of Schedule B (Form 941))	13	2,163 34
14	Total deposits for quarter, including overpayment applied from a prior quarter	14	2,163 34
15	Balance due (subtract line 14 from line 13). See instructions	15	0 00
16	Overpayment , if line 14 is more than line 13, enter excess here ▶ \$ _____ and check if to be: <input type="checkbox"/> Applied to next return OR <input type="checkbox"/> Refunded. <ul style="list-style-type: none"> • All filers: If line 13 is less than \$500, you need not complete line 17 or Schedule B (Form 941). • Semiweekly schedule depositors: Complete Schedule B (Form 941) and check here ▶ <input type="checkbox"/> • Monthly schedule depositors: Complete line 17, columns (a) through (d), and check here ▶ <input type="checkbox"/> 		

17 Monthly Summary of Federal Tax Liability. Do not complete if you were a semiweekly schedule depositor.			
(a) First month liability	(b) Second month liability	(c) Third month liability	(d) Total liability for quarter
627.29	627.29	908.76	2,163.34

Sign Here Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.
Signature ▶ **Maria Sanchez** Print Your Name and Title ▶ **Maria Sanchez, Owner** Date ▶ **6/30/20--**

Figure 13-8 Form 941

AFTER
You READ

Reinforce the Main Idea

Different payroll tax forms are used for different purposes. Using a chart like this one, indicate the purpose of each form.

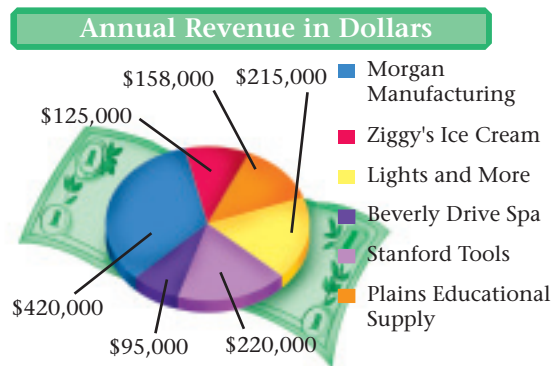
FORM	PURPOSE
W-2	
W-3	
941	
940	



Do the Math

Small businesses (those that have revenues of less than \$200,000 per year) pay their federal taxes by the 15th day of the month following the payroll month. Large businesses pay their taxes every two weeks. Review the graph, and answer the following questions.

1. Which businesses pay their taxes every two weeks?
2. What percent of businesses represented in the circle graph are large businesses?



Problem 13-4 Payment of Payroll Liabilities

The following account balances appear in the general ledger for Soap Box Laundry on April 30.

Instructions Record the payment of the four liability accounts on page 34 of the general journal. (Hint: Two checks are written.)

General Ledger

Social Security Tax Payable	\$318.55
State Income Tax Payable	205.60
Medicare Tax Payable	113.28
Employees' Federal Income Tax Payable	286.00



Problem 13-5 Analyzing a Source Document

PAYROLL REGISTER																												
PAY PERIOD ENDING										May 19		20 --		DATE OF PAYMENT	May 19, 20--													
EMPLOYEE NUMBER	NAME	MAR. STATUS	ALLOW.	TOTAL HOURS	RATE	EARNINGS			DEDUCTIONS						NET PAY	CK. NO.												
						REGULAR	OVERTIME	TOTAL	SOC. SEC. TAX	MEDICARE TAX	FED. INC. TAX	STATE INC. TAX	HOSP. INS.	OTHER			TOTAL											
25						TOTALS	1,218	93	109	14	1,328	07	82	34	19	26	184	00	26	56	20	00	---	332	16	995	91	25
Other Deductions: Write the appropriate code letter to the left of the amount: B-U.S. Savings Bonds; C-Credit Union; UD-Union Dues; UW-United Way.																												

Instructions Based on this payroll register, record the appropriate journal entry in your working papers. Use page 14 in the general journal.

Accounting Careers in Focus

DIRECTOR OF SHARED SERVICES

Lear Corporation, Dearborn, Michigan
Bonnie Sims

Q: What does Lear Corporation do?

A: We manufacture parts for the interiors of automobiles.

Q: What are the responsibilities of your job?

A: I oversee a unit of our company that is called a shared service center. Shared service centers allow companies to centralize their financial, administrative, or customer support functions.

Q: Why did you choose an accounting career?

A: I was born into a family of accountants. Accounting was something in which I was always interested.

Q: What has helped you succeed?

A: My success is due in large part to hard work and dedication. I started my career as an accounts payable clerk, eventually became an accountant, and then worked in the shared services center at Lear. I'm now the director. Always keep your goals in mind and continually work toward them.

Q: What do you like most about your job?

A: I like that it involves accounting, finance, and project management. This mix provides me with many challenges.

Q: What types of challenges?

A: The biggest is dealing with periods like quarter-end. Things get extremely busy and hectic!

Tips from . . .

 Robert Half International Inc.

Your résumé should always be submitted along with a strong cover letter. The letter should expand upon the key points in your résumé, highlight your skills and experience that are most relevant to the job opening, and explain how you can benefit the prospective employer.

CAREER FACTS

- ▶ **Nature of the Work:** Oversee accounts payable, expense reporting, and payroll departments; hire, train, and manage accounting staff.
- ▶ **Training or Education Needed:** A bachelor's degree in accounting or finance; at least seven years' experience.
- ▶ **Aptitudes, Abilities, and Skills:** Strong communication, technology, analytical, and management skills.
- ▶ **Salary Range:** \$45,000 to \$115,000 depending on experience, company size, industry, and location.
- ▶ **Career Path:** Gain public accounting experience, and then move to a corporate environment. Gradually assume positions with increasing responsibility.

Thinking Critically

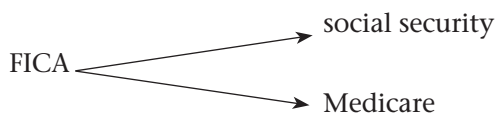
Why is it important for managers to be able to see the big picture?

Key Concepts

- Total gross earnings are often recorded in the **Salaries Expense** account. Amounts withheld from employees' earnings are liabilities of the business. The payroll register is the source document for paying the payroll. The payroll transaction is journalized here:

GENERAL JOURNAL						PAGE <u>9</u>
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	20--					1
2	Date	Salaries Expense		X X X X X		2
3		Emplys' Fed. Inc. Tax Pay.			X X X X X	3
4		Emplys' State Inc. Tax Pay.			X X X X X	4
5		Social Sec. Tax Pay.			X X X X X	5
6		Medicare Tax Pay.			X X X X X	6
7		Hosp. Ins. Premiums Pay.			X X X X X	7
8		U.S. Savings Bonds Pay.			X X X X X	8
9		Cash in Bank			X X X X X	9

- Employers pay taxes on employees' gross earnings. These taxes are in addition to the amounts withheld from earnings. The employer payroll taxes are an operating expense of the business. (Withheld taxes are not an expense. The business merely serves as the collection agent for the government.) Employers pay the following payroll taxes:



FUTA—federal unemployment insurance

SUTA—state unemployment insurance

- The employer sends tax deposits to government agencies at regular intervals:

Tax Type	Tax Rate	Paid by		How Paid
		Employee (Withholding)	Employer (Expense)	
Federal income tax	Based on W-4	✓		EFTPS or Form 8109 (941 oval)
Social security	6.2% of earnings up to \$90,000 (2 × 6.2% = 12.4%)	✓	✓	EFTPS or Form 8109 (941 oval)
Medicare	1.45% of total earnings (2 × 1.45% = 2.9%)	✓	✓	EFTPS or Form 8109 (941 oval)
FUTA	6.2% <i>minus</i> SUTA rate up to 5.4% (usually 6.2% – 5.4% = .8%) of earnings up to \$7,000		✓	EFTPS or Form 8109 (940 oval)

State Income Tax	Based on W-4	✓		Varies by state
SUTA	Varies by state		✓	Varies by state

4. The deposit for FICA and federal income tax is journalized here:

GENERAL JOURNAL							PAGE	12
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT			
1	20--						1	
2	Date	Emplys' Fed. Inc. Tax Pay.		xx xx			2	
3		Social Security Tax Pay.		xx xx			3	
4		Medicare Tax Pay.		xx xx			4	
5		Cash in Bank			xx xx		5	

5. A business is legally required to make various reports to different government agencies at specified time intervals. They report this information on various payroll-related tax forms:
1. Form W-2—Wage and Tax Statement—is filed *annually*. It summarizes each employee's calendar-year earnings and withholdings.
 2. Form W-3—Transmittal of Wage and Tax Statements—is filed *annually*. It summarizes the information on the employees' Forms W-2 and is sent along with the Forms W-2.
 3. Form 941—Employer's Quarterly Federal Tax Return—is filed *quarterly*. It reports the federal income tax and the FICA tax (for both employee and employer).
 4. Form 940—Employer's Annual Federal Unemployment (FUTA) Tax Return—is filed *annually*. It reports the employer's federal unemployment taxes.

Key Terms

Electronic Federal Tax Payment System (EFTPS)	(p. 351)	Form W-2	(p. 357)
Federal Unemployment Tax Act (FUTA)	(p. 347)	Form W-3	(p. 357)
Form 8109	(p. 351)	Payroll Tax Expense	(p. 347)
Form 940	(p. 358)	Salaries Expense	(p. 340)
Form 941	(p. 358)	State Unemployment Tax Act (SUTA)	(p. 347)
		unemployment taxes	(p. 347)

AFTER
YOU READ**Check Your Understanding**

1. **Journalizing Payroll Transactions**
 - a. In what expense account are employees' earnings often recorded?
 - b. List the accounts in which the payroll liabilities for federal income tax and Medicare tax are recorded.
2. **Employer's Payroll Taxes**
 - a. Which payroll taxes are expenses to the business?
 - b. On what amount are the employer's FICA taxes computed?
3. **Computing Payroll Tax Expense**
 - a. How is the employer's share of FICA tax calculated?
 - b. The share of both the employer's and employee's FICA tax is calculated using the same percentages, but the amount for each can differ slightly. What causes this?
4. **Journalizing Tax Liabilities**
 - a. What is the journal entry to record the FUTA tax expense?
 - b. The amount of the FICA tax deposit is twice as much as the employer's FICA tax expense. Why?
5. **Payroll Tax Reports and Forms**
 - a. What is the difference between Form 940 and Form 941?
 - b. What information does Form W-3 contain?

Apply Key Terms

You are the owner of Accurate Financial Services. You have just been hired by Brad Justice, the owner of a new company called Snack Shack, to help establish a payroll system. As a new business owner, Brad understands the importance of complying with government requirements, but he is concerned that he may not be aware of all of the requirements related to payroll. Using the following key terms, prepare a presentation for Brad describing the government requirements for payroll.

Electronic Federal Tax Payment System (EFTPS)	Form W-2
Federal Unemployment Tax Act (FUTA)	Form W-3
Form 8109	Payroll Tax Expense
Form 940	Salaries Expense
Form 941	State Unemployment Tax Act (SUTA)
	unemployment taxes



Recording and Paying Payroll Tax Liabilities

Making the Transition from a Manual to a Computerized System

Task	Manual Methods	Computerized Methods
Record and post payroll entries; pay payroll tax liabilities	<ul style="list-style-type: none"> • Prepare the payroll journal entry based on the payroll register totals. • Post the payroll entries to the general ledger. • Prepare tax liability checks to pay federal, state, and local taxing authorities. • Prepare journal entries to record the payment of the liabilities. 	<ul style="list-style-type: none"> • When the payroll checks are generated, the payroll tax journal entries are automatically prepared and posted.



Peachtree® Q & A

Peachtree Question	Answer
How do I journalize the employer's tax liabilities?	<ul style="list-style-type: none"> • When payroll checks are issued, Peachtree automatically journalizes the tax liabilities.
How do I pay the payroll tax liabilities?	<ol style="list-style-type: none"> 1. Select Payments from the <i>Tasks</i> menu. 2. Select the taxing authority ID to be paid. 3. Enter the amount and cash account number. 4. Enter description and general ledger account (tax liability account). 5. Click Print.



QuickBooks Q & A

QuickBooks Question	Answer
How do I journalize the employer's tax liabilities?	<ul style="list-style-type: none"> • When payroll checks are issued, QuickBooks Payroll service automatically journalizes the liabilities.
How do I pay the payroll tax liabilities?	<ol style="list-style-type: none"> 1. Select Process Payroll Liabilities from the <i>Employees</i> menu, and then select Pay Payroll Liabilities. 2. Enter the date range for the liabilities you want to pay, and click OK. 3. In the Pay by Check tab, enter the bank account and the check date, and then mark the items to be paid. 4. Click Create.

For detailed instructions, see your Glencoe Accounting Chapter Study Guides and Working Papers.

Complete problems using:

Manual Glencoe Working Papers

OR

Peachtree Complete Accounting Software

OR

QuickBooks Templates

OR

Spreadsheet Templates

SPREADSHEET SMART GUIDE

Step-by-Step Instructions: Problem 13-6

1. Select the spreadsheet template for Problem 13-6.
2. Enter your name and the date in the spaces provided on the template.
3. Complete the spreadsheet using the instructions in your working papers.
4. Print the spreadsheet and proof your work.
5. Complete the Analyze activity.
6. Save your work and exit the spreadsheet program.

Peachtree®

SMART GUIDE

Step-by-Step Instructions: Problem 13-7

1. Select the problem set for Kits & Pups Grooming (Prob. 13-7).
2. Rename the company and set the system date.
3. Record the payroll entry using the **General Journal Entry** option.
4. Print a General Journal report and a General Ledger report.
5. Proof your work.
6. Complete the Analyze activity.
7. End the session.

Problem 13-6 Calculating Employer's Payroll Taxes

Instructions For each of the total gross earnings amounts recorded in the past five pay weeks for Hot Suds Car Wash, determine these taxes:

- employer's FICA taxes (social security 6.2%, Medicare 1.45%)
- federal unemployment tax (.8%)
- state unemployment tax (5.4%)

Use the form provided in the working papers. None of the employees has reached the taxable earnings limit.

Total gross earnings:

1. \$914.80
2. \$1,113.73
3. \$2,201.38
4. \$791.02
5. \$1,245.75

Analyze Explain the relationship between federal and state unemployment tax rates.

Problem 13-7 Recording the Payment of the Payroll

The totals of the payroll register for Kits & Pups Grooming are shown in your working papers. On December 31 the owner, Abe Shultz, wrote Check 1400 to pay the payroll.

Instructions In your working papers:

1. Record the payroll entry in the general journal.
2. Post the entry to the general ledger accounts.

Analyze Identify the payroll liability account that has the largest credit entry.

Problem 13-8 Journalizing Payroll Transactions

The Outback Guide Service payroll register for the week ending Dec. 31 follows:

PAYROLL REGISTER																	
PAY PERIOD ENDING Dec. 31 20--										DATE OF PAYMENT Dec. 31, 20--							
EMPLOYEE NUMBER	NAME	REG. HOURS	OVERTIME HOURS	RATE	EARNINGS			DEDUCTIONS					NET PAY	CK. NO.			
					REGULAR	OVERTIME	TOTAL	SOC. SEC. TAX	MEDICARE TAX	FED. INC. TAX	STATE INC. TAX	HOSP. INS.			OTHER	TOTAL	
1 31	Coleman, Clarence	M 1	41	7.60	304 00	11 40	315 40	19 55	4 57	21 00	6 31				51 43	263 97	1
2 28	Lorman, Victoria	S 1	30	8.00	240 00		240 00	14 88	3 48	21 00	4 80		(UD)5 40		49 56	190 44	2
3 33	Peterson, Peg	S 1	38	7.25	275 50		275 50	17 08	3 99	26 00	5 51				52 58	222 92	3
4 35	Torrez, Joyce	M 2	36	7.25	261 00		261 00	16 18	3 78	6 00	5 22		(UD)5 40		36 58	224 42	4
24																	24
25																	25
					TOTALS	1,080 50	11 40	1,091 90	67 69	15 82	74 00	21 84		10 80	190 15	901 75	

Other Deductions: Write the appropriate code letter to the left of the amount: B-U.S. Savings Bonds; C-Credit Union; UD-Union Dues; UW-United Way.

Instructions In your working papers:

- Record the entry for the payment of the payroll on page 15 of the general journal. (Check 1201, dated Dec. 31).
- Use the information in the payroll register to compute the employer's payroll taxes:
 - FICA taxes (6.2% for social security, 1.45% for Medicare)
 - federal unemployment tax (0.8%)
 - state unemployment tax (5.4%)

None of the employees has reached the taxable earnings limit.
- Record the entry for the employer's payroll taxes on page 15 of the general journal.

Analyze

Examine the entry recording the payment of payroll. Which account, **Social Security Tax Payable** or **Employees' Federal Income Tax Payable**, had the larger credit?

Problem 13-9 Recording and Posting Payroll Transactions

Showbiz Video completed the following payroll transactions during the first two weeks of December. Showbiz Video pays its employees on a biweekly basis (every two weeks).

Instructions In your working papers:

- Record the December 13 transactions on page 38 in the general journal.
- Post both payroll entries to the appropriate general ledger accounts.
- Journalize and post the December 16 transactions.

Date	Transactions
Dec. 13	Wrote Check 2206 to pay the payroll of \$3,840.58 (gross earnings) for the pay period ending December 13. The following amounts were withheld: FICA taxes, \$238.12 for social security and \$55.69 for Medicare; employees' federal income taxes, \$639.00; employees' state income taxes, \$96.02; insurance premium, \$21.00; U.S. savings bonds, \$20.00.
13	Recorded the employer's payroll taxes (FICA tax rates, 6.2% for social security and 1.45% for Medicare; federal unemployment tax rate, 0.8%; state unemployment tax rate, 5.4%). No employee has reached the maximum taxable amount.
16	Paid the amounts owed to the federal government for employees' federal income taxes and FICA taxes, Check 2215.
16	Purchased U.S. savings bonds for employees for \$100.00, Check 2216.

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SMART GUIDE

Step-by-Step Instructions: Problem 13-8

- Select the problem set for Outback Guide Service (Prob. 13-8).
- Rename the company and set the system date.
- Record the payment of the payroll and the employer's payroll taxes.
- Print a General Journal and a General Ledger report.
- Proof your work.
- Complete the Analyze activity.
- End the session.

QuickBooks

PROBLEM GUIDE

Step-by-Step Instructions: Problem 13-8

- Restore the Problem 13-8.QBB file.
- Enter the payroll transactions using **Make General Journal Entries** and **Write Checks** options.
- Print a Journal report and a General Ledger report.
- Proof your work.
- Complete the Analyze activity.
- Back up your work.

SOURCE DOCUMENT PROBLEM

Problem 13-9

Use the source documents in your working papers to complete this problem.

CONTINUE

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SMART GUIDE

Step-by-Step Instructions: Problem 13-9

1. Select the problem set for Showbiz Video (Prob. 13-9).
2. Rename the company and set the system date.
3. Record the transactions.
4. Print a General Journal report and a General Ledger report.
5. Proof your work.
6. Complete the Analyze activity.
7. End the session.

QuickBooks

PROBLEM GUIDE

Step-by-Step Instructions: Problem 13-9

1. Restore the Problem 13-9.QBB file.
2. Enter the payroll transactions.
3. Print a Journal and a General Ledger report.
4. Complete the Analyze activity.
5. Back up your work.

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SMART GUIDE

Step-by-Step Instructions: Problem 13-10

1. Select the problem set for Job Connect (Prob. 13-10).
2. Rename the company and set the system date.
3. Record all transactions.
4. Print a General Journal report and a General Ledger report.
5. Proof your work.
6. Manually prepare Form 8109.
7. Complete the Analyze activity.
8. End the session.

Date	Transactions (cont.)
16	Paid \$148.00 to American Insurance Company for employees' insurance, Check 2217.

Analyze

Identify the payroll accounts that have a balance after entries have been posted.



Problem 13-10 Recording and Posting Payroll Transactions

Job Connect pays its employees twice a month. Employee earnings and tax amounts for the pay period ending December 31 are:

Gross earnings	\$12,543.40
Social security tax	777.69
Medicare tax	181.88
Employees' federal income tax	662.00
Employees' state income tax	250.87

Instructions In your working papers:

1. Prepare Check 1602 (payable to "Job Connect Payroll Account") to transfer the net pay amount to the payroll checking account.
2. On page 19 of the general journal, record the payment of the payroll.
3. Post the payroll transaction to the general ledger.
4. Compute payroll tax expense forms and journalize the entry to record employer's payroll taxes using these rates:
 - social security, 6.2%
 - state unemployment, 5.4%
 - Medicare, 1.45%
 - federal unemployment, 0.8%

No employee has reached the taxable earnings limit.
5. Post the entry to the general journal.
6. Prepare checks dated December 31 to pay the following payroll liabilities:
 - (a) Federal unemployment taxes, payable to First City Bank (Check 1603).
 - (b) State unemployment taxes, payable to the State of North Carolina (Check 1604).
 - (c) Employees' federal income taxes and FICA taxes, payable to First City Bank (Check 1605).
7. Journalize and post the entries for the payment of the payroll liabilities.
8. Complete payroll tax expense forms. Prepare a Form 8109 for each of the two federal tax deposits paid in Instruction 6, parts (a) and (c). The oval for FICA and federal income tax is 941. The oval for the federal unemployment tax is 940.

Analyze

Calculate the employer's total payroll-related expense for the pay period.

Practice your test-taking skills! The questions on this page are reprinted with permission from national organizations:

- Future Business Leaders of America
- Business Professionals of America

Use a separate sheet of paper to record your answers.



Future Business Leaders of America

MULTIPLE CHOICE

1. When a semimonthly payroll is paid, the credit to Cash is equal to the
 - a. total earnings of all employees.
 - b. total deductions for income tax and social security tax.
 - c. total deductions.
 - d. net pay for all employees.
2. The form that accompanies the payment of taxes to the federal government is a
 - a. Form W-2.
 - b. Form 8109.
 - c. Form 940.
 - d. Form 941.



Business Professionals of America

MULTIPLE CHOICE

3. The account *payroll taxes expense* is used for
 - a. recording employees' federal income taxes withheld.
 - b. recording employees' social security and Medicare taxes.
 - c. recording the employer's social security and Medicare taxes.
 - d. recording the employer's social security, Medicare, FUTA, and SUTA taxes.
4. Until the amounts withheld from employee salaries are paid by the employer, they are recorded as
 - a. assets.
 - b. liabilities.
 - c. salary expense.
 - d. revenue.
5. The accounting document that provides a basis for recording payroll transactions is
 - a. the payroll register.
 - b. the employee earnings records.
 - c. the general ledger.
 - d. the general journal.

Need More Help?

Go to glencoeaccounting.glencoe.com and click on **Student Center**. Click on **Winning Competitive Events** and select **Chapter 13**.

- Practice Questions and Test-Taking Tips
- Concept Capsules and Terminology


**CRITICAL
Thinking**
Payroll Records and Reports

1. When employees are paid, what amount is credited to **Cash in Bank**?
2. Why do employees' paycheck deductions become liabilities of the business?
3. Suppose that a business is located in a state that has an income tax. The business allows employees to take deductions for U.S. savings bonds. List the payroll liability accounts this business would have.
4. Predict what might happen to the **Social Security Tax Payable** account balance if the **Salaries Expense** entry was posted but the **Payroll Tax Expense** entry was never posted.
5. Design a diagram that shows FICA taxes from the payroll date through the tax deposit date.
6. Employers must deposit payroll taxes before they file the payroll tax returns. Do you agree with this practice? Why or why not?


**CASE
STUDY**
Payroll: Warehousing Center

Morrison Distribution Center offers warehousing services. The company is considering adding a third shift with 12 new employees. Estimate the third shift payroll costs assuming: (1) The average warehouse employee earns \$21,000 per year. (2) The state unemployment tax rate is 5.4% and the federal rate is 0.8% (both apply to the first \$7,000 of earnings). (3) The employer's cost of health insurance averages 22% of an employee's earnings.

INSTRUCTIONS

1. Calculate the salary expense related to adding the 12 new employees.
2. Compute the additional payroll taxes Morrison will pay.
3. Determine the total cost to add the third shift.


**a
matter
of
ETHICS**
Money Shuffling

Suppose that you are an accounting clerk at Cybercafé. The business owner wants you to use employees' 401(k) withholdings to pay off a pressing debt. She believes she can replace the funds within two months and that the employees will not lose very much by not having their money invested during that time.

ETHICAL DECISION MAKING

1. What are the ethical issues?
2. What are the alternatives?
3. Who are the affected parties?
4. How do the alternatives affect the parties?
5. What would you do?


**COMMUNICATING
ACCOUNTING**
Public Speaking

As the senior payroll clerk for Fashion Square Gift Shop, you are to explain the deductions from employees' payroll checks at a new employee orientation.

1. Prepare an outline and visuals of the items you need to discuss.
2. Pair with a classmate and give your presentations to each other. Focus on both verbal and nonverbal communication skills (eye contact, gestures, and facial expressions). Give each other feedback and suggestions for improvements.



Self-Management

People with self-management skills can set attainable goals and motivate themselves.

ON THE JOB

As a payroll clerk, you process all payroll and tax reports. It is December. What do you need to do now to make sure you process the payroll tax reports on time?

INSTRUCTIONS

Describe the reports you will need to file, and name the payroll records you will need to complete each one.



Cultural Values of Employees

Dutch sociologist Geert Hofstede interviewed thousands of employees worldwide to understand their cultures and values. One value dimension he studied was *individualism*—emphasis on the individual and individual achievement. He found that individualism is important in the United States, where workers prefer to work independently and do not expect organizations to take care of them. In Latin American countries like Mexico, employees value group experience, expect close supervision, and want their company to take care of their interests.

INSTRUCTIONS Discuss these differences found by Hofstede.



Your Payroll Deductions

You may have wondered how your employer pays the taxes and other deductions from your paycheck.

PERSONAL FINANCE ACTIVITY Ask your friends what deductions are taken from their paychecks (categories, not amounts). Identify the forms related to the deductions and write a brief report about the deductions and forms.

PERSONAL FINANCE ONLINE Log on to glencoeaccounting.glencoe.com and click on **Student Center**. Click on **Making It Personal** and select **Chapter 13**.



Employee Costs

Employee benefits might include paid vacations and health insurance. Many employers calculate the cost of benefits as a percentage of total salaries.

INSTRUCTIONS Use the payroll register on page 320 and payroll tax information in this chapter to answer these questions.

1. If the employee benefits cost 24% of employee regular earnings, what is the benefits cost for this salary period?
2. If a new employee is to be hired for a 40-hour work week at wages of \$8 an hour, what would be the total weekly cost for the new employee? (The company estimates its employee benefits cost at 22%.)



Tax Obligations

As you explore different ways of compensating employees, remember that taxes still apply. Visit glencoeaccounting.glencoe.com and click on **Student Center**. Click on **WebQuest** and select **Unit 3** to continue your Internet project.

