

# Toward Business Literacy: Accounting Outlines



## Payroll

### FICA (Federal Insurance Contribution Act)

#### Social Security

- January 1, 1937 start for providing old age, survivor and disability
  - 6.2% up to \$90,000 (for 2006) deducted from worker pay and matched by employer

#### Medicare

- 1965 start for medical care for those over 65
- Basic plan covers hospital care
  - 1.45% (no limit) deducted from worker pay and matched by employer
- Voluntary plan pays for major doctor bills for those who enroll
- New prescription plan just inaugurated

#### Unemployment (FUTA)

- Employer owes unemployment if (1) paid wages of \$1500 or (2) employed one person on at least one day for 20 weeks.
- 6.2% on first \$7000
- Can take a tax credit for up to 5.4% paid to a state plan
- Paid quarterly (federal) and form filed annually
- Adjusting entry needed at the end—accrual

#### Income Tax withholding

- Government has a table or formula to compute withholding
  - Based on length of pay period, taxable wages, marital status and dependents

#### Payroll Journal Entries

JE: (payroll deduction)			
Wages and Salaries Expense		10000	
Withholding Taxes Payable			1320
FICA Taxes Payable		765	
Union dues payable			88
Cash		7827	

JE: (Employer payroll taxes)			
Payroll Tax Expense		1245	
FICA Taxes Payable			765
Federal Unemployment Tax Payable			80
State Unemployment Tax Payable			400

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## **Compensated Absences**

- For vacation, illness and holidays
- Record a liability if
  - Employee has already performed service
  - Rights are vested (even if terminated) or accumulated
  - Payment is probable
  - Amount can be reasonably estimated
- Sick pay (2 methods)
  1. Receive pay only because of illness (no liability)
  2. Accumulate unused sick pay (liability accrued)

## **Bonus Agreements**

- To employees: additional wages (operating expense)
- Rents or royalties tied to income
  - Each additional revenue, product purchased, resource extracted creates a current liability