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## Employee Earnings and Deductions

### CHAPTER REVIEW

1. Understand the role of laws that affect payroll deductions and contributions.  
Those employees and employers involved in the computation and paying of employees for their work must understand the laws, know the percentages, and limits involved, and when and to whom to submit the funds deducted from employees and contributed by employees.
2. Calculate total earnings based on an hourly, piece-rate, or commission basis.  
Earnings calculated on an *hourly basis* equal the hourly rate multiplied by the number of hours worked. Earnings calculated on a *piece-rate basis* equal the total number of products produced multiplied by the rate per unity of product. Earnings calculated on a *commission basis* equal the total number of units sold or the price of units sold multiplied by the commission rate.
3. Determine deductions using tables of employee's income tax withholding.  
Using the appropriate income tax withholding table in IRS Circular E, first determine marital status and payroll period and then locate the wage bracket containing the amount of earnings. Next, on the same horizontal line, select the vertical column containing the number of allowances claimed.
4. Complete a payroll register.  
List the employee names, hours worked, and beginning cumulative earnings. Add the total earnings to the beginning cumulative earnings to get ending cumulative earnings. The Unemployment Taxable Earnings column is used for the first \$7,000 of each employee's earnings for FUTA and SUTA. The Social Security Taxable Earnings column is used for an assumed \$84,900. The Medicare Taxable Earnings column is used for all earnings. Under the Deduction columns, list the income taxes withheld, the Social Security taxes withheld, the Medicare taxes withheld, and other deductions. The Social Security tax deduction equals the Social Security taxable earnings multiplied by an assumed rate of 6.2 percent. The Medicare tax deduction equals the Medicare taxable earnings multiplied by an assumed rate of 1.45 percent. Net amount equals total (gross) earnings minus total deductions. The Expense Account Debited columns are used to distribute salary and wages expense to the appropriate accounts.
5. Journalize the payroll entry from a payroll register.  
Totals are taken directly from the payroll register. For the following entry, assume that one check is made payable to a special payroll bank account. The entry to transfer the cash to the payroll bank account is not shown here.
6. Maintain employee's individual earnings records.  
In the employees' individual earnings records, list the personal data for each employee. Based on the information contained in the payroll register, record the earning and deduction for each payroll period.