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)

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages and Salaries Expense</td>
<td>10000</td>
</tr>
<tr>
<td>Withholding Taxes Payable</td>
<td>1320</td>
</tr>
<tr>
<td>FICA Taxes Payable</td>
<td>765</td>
</tr>
<tr>
<td>Union dues payable</td>
<td>88</td>
</tr>
<tr>
<td>Cash</td>
<td>7827</td>
</tr>
</tbody>
</table>

JE: (Employer payroll taxes)

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll Tax Expense</td>
<td>1245</td>
</tr>
<tr>
<td>FICA Taxes Payable</td>
<td>765</td>
</tr>
<tr>
<td>Federal Unemployment Tax Payable</td>
<td>80</td>
</tr>
<tr>
<td>State Unemployment Tax Payable</td>
<td>400</td>
</tr>
</tbody>
</table>

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