

Problem 7

ABC Corporation has 8 employees. Information about the October payroll follows:

Name	Hours Worked	Pay Rate	Federal Income Tax Withheld
Ahn, M.	190	\$12 per hour	\$450
Bhushan, F.	n/a	\$2,500 per month	\$638
Child, G.	60	\$13 per hour	\$167
Edwards, J.	n/a	\$6,700 per month	\$1,200
Hall, J.	n/a	\$10,200 per month	\$2,681
Wong, I.	150	\$11 per hour	\$360
Wu, C.	148	\$12 per hour	\$400
ZoBell, D.	n/a	\$12,200 per month	\$3,000

Additional information is as follows:

ABC is in a state without an income tax. Employees' federal income tax withholdings depend on various factors, and the amounts are as indicated in the above table.

No employees worked overtime, with the exception of Meeyeon Wong, who worked 30 hours of overtime. Overtime is paid at 150% of the normal hourly rate.

Assume that gross pay is subject to social security taxes at a 6.5% rate, on an annual base of \$100,000. Assume that Medicare/Medicaid taxes are 1.5% of gross earnings. These taxes are matched by the employer. Only James Hall had earned more than \$90,000 during the months leading up to October. He had earned \$91,800 during that time period.

ABC has 100% participation in a \$15 per month employee charitable contribution program. These contributions are withheld from monthly pay.

ABC pays for workers' compensation insurance at a 2% of gross pay rate. None of this cost is paid by the employee.

ABC provides employees with a group health care plan, however the cost is fully paid by employees. The rate is \$300 per month, per employee.

ABC's payroll is subject to federal (0.5%) and state (1.5%) unemployment taxes on each employee's gross pay, up to \$8,000 per year. All employees had earned in excess of \$8,000 in the months leading up to October, with the exception of Francis Bhushan. Francis was first employed during the month of October.

ABC contributes 5% of gross pay to an employee retirement program. Employees do not contribute to this plan.

- a) Complete the payroll schedule on the accompanying blank worksheet.
- b) Prepare journal entries for ABC's payroll and the related payroll expenses.

Worksheet 7

a)

Name	Gross Earnings	Deductions				Health Insurance	Net Earnings
		Federal Income Tax	Social Security Tax	Medicare/Medicaid	Charitable		
Ahn, M.							
Bhushan, F.							
Child, G.							
Edwards, J.							
Hall, J.							
Wong, I.							
Wu, C.							
ZoBell, D.							
Totals	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

LIGS University

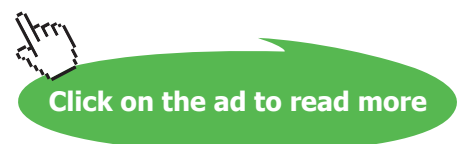
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b)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
31-Oct			
	<i>To record payroll</i>		
31-Oct			
	<i>To record employer portion of payroll taxes and benefits</i>		

Solution 7

a)

Name	Gross Earnings	Deductions					Net Earnings
		Federal Income Tax	Social Security Tax	Medicare/Medicaid	Charitable	Health Insurance	
Ahn, M.	\$ 2,280.00	\$ 450.00	\$ 148.20	\$ 34.20	\$ 15.00	\$ 300.00	\$ 1,332.60
Bhushan, F.	2,500.00	638.00	162.50	37.50	15.00	300.00	1,347.00
Child, G.	780.00	167.00	50.70	11.70	15.00	300.00	235.60
Edwards, J.	6,700.00	1,200.00	435.50	100.50	15.00	300.00	4,649.00
Hall, J.	10,200.00	2,681.00	598.00	153.00	15.00	300.00	6,453.00
Wong, I.	1,650.00	360.00	107.25	24.75	15.00	300.00	843.00
Wu, C.	1,776.00	400.00	115.44	26.64	15.00	300.00	918.92
ZoBell, D.	12,200.00	3,000.00	793.00	183.00	15.00	300.00	7,909.00
Totals	\$ 38,086.00	\$ 8,896.00	\$ 2,410.59	\$ 571.29	\$ 120.00	\$ 2,400.00	\$ 23,688.12

b)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
31-Oct	Wages Expense	38,086.00	
	Federal Income Tax Payable		8,896.00
	Social Security Payable		2,410.59
	Medicare/Medicaid Payable		571.29
	Charity payable		120.00
	Insurance Payable		2,400.00
	Cash		23,688.12
	<i>To record payroll</i>		
31-Oct	Payroll Tax Expense	3,004.68	
	Employee Benefits Expense	2,666.02	
	Social Security Payable		2,410.59
	Medicare/Medicaid Payable		571.29
	Workers' Comp Payable (2%)		761.72
	FUTA Payable (0.5% X \$1,140)		5.70
	SUTA Payable (1.5% X \$1,140)		17.10
	Retirement Plan Payable (5%)		1,904.30
	<i>To record employer portion of payroll taxes and benefits</i>		