



# Payroll Accounting

A Practical, Real-World Approach | 6th Edition

## Chapter 2: Calculating Employee Pay



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# Learning Objectives

- After studying this chapter, you will be able to:
  - Identify various pay-period options
  - Distinguish between salaries and wages
  - Define overtime pay
  - Determine employee pay using multiple methods
  - Calculate incentives, commissions, and bonuses
  - Establish the payroll register

# Pay Periods and Workweeks

- Employers can choose to pay workers on many different schedules.
- The most common pay periods are weekly, biweekly, semimonthly, and monthly.

| Pay Period Type | Frequency of Pay Dates  |
|-----------------|---|
| Weekly          | Pay dates occur once per week, on the same day of the week                                    |
| Biweekly        | Pay dates occur once every other week, on the same day of the week                            |
| Semimonthly     | Pay dates occur twice per month, typically at the midpoint and on the final day of each month |
| Monthly         | Pay dates occur once per month, typically on the same date each month                         |

# Pay Period Options

- Lags may exist between the dates worked and receiving a paycheck.
  - Example: This weekly pay period runs Monday through Sunday:

| July 2018 |      |       |      |        |      |      |
|-----------|------|-------|------|--------|------|------|
| Sun.      | Mon. | Tues. | Wed. | Thurs. | Fri. | Sat. |
| 1         | 2    | 3     | 4    | 5      | 6    | 7    |
| 8         | 9    | 10    | 11   | 12     | 13   | 14   |
| 15        | 16   | 17    | 18   | 19     | 20   | 21   |
| 22        | 23   | 24    | 25   | 26     | 27   | 28   |
| 29        | 30   | 31    |      |        |      |      |

***Check received on 7/13 pays for hours worked Monday 7/2 through Sunday 7/8***

# Defining the Workweek

## ■ Defining the workweek

- Any consecutive seven-day period
- Can differ from a calendar week

***WARNING!*** *The workweek must be consistent from one week to another. It may only be altered if the change is intended to be permanent and is not made in order to circumvent overtime requirements.*



# Wage Determination Issues

- Compliance with the Equal Pay Act
- State minimum wages; may be significantly higher than the federal level (the higher wage prevails)
- Employee time cards
  - Track hours worked for those paid on an hourly basis
  - Increasing numbers of alternative timekeeping methods exist, including electronic and biometric



# The Equal Pay Act of 1963 (EPA)

- Enacted mainly to protect female employees
  - Companies may not pay lower wages to employees of the other gender for a similar job.
- Allows pay disparity under certain circumstances, such as the existence of:
  - A seniority system
  - A merit system
  - A system based on quantity or quality of output
  - Other non-gender-based systems

# Salaries and Wages

- **Salary** – typically paid as an annual amount
- **Wages** – typically paid on an hourly basis

| Weekly Regular Earnings Calculation |  |
|-------------------------------------|--|
| Wage-earning employee               | Regular wage rate × regular hours worked |
| Salaried employee                   | Annual salary/52 weeks                   |

***NOTE!*** Alternative base wages may also be used, such as daily wage rates and rates based on employee output.



# Calculating Overtime Pay

- There are two methods for calculating overtime pay:

*Add regular wages  
to overtime  
wages.*

| Total Gross Wages Calculation |  |
|-------------------------------|--|
| Method 1                      | Regular wages + overtime wages   |
| Method 2                      | Total regular wages for all hours worked + additional pay earned for overtime hours worked |

*Add regular wages for  
total hours plus pay  
earned for the overtime  
hours worked.*

# Converting to Hourly Rates

- Non-exempt salaried employees must be paid for overtime hours worked.
- A salary must be converted to an hourly rate to calculate earned overtime pay.

# Weekly Wage Conversions

- There is a four-step process to convert a weekly wage to an hourly rate and then calculate total gross pay

| Process for Determining Weekly Gross Pay based on Weekly Wages |  |
|--|--|
| Step 1:  | Determine the hourly regular wage rate.                              |
| Step 2:  | Convert to an hourly overtime wage rate.                             |
| Step 3:  | Calculate overtime wages earned.                                     |
| Step 4:  | Determine gross pay by adding regular earnings to overtime earnings. |

***TIP!*** If an employee receives a biweekly wage, begin the conversion process by dividing the biweekly wage by two.

# Annual Salary Conversions

- There is a five-step process to convert annual salary to an hourly wage and calculate gross pay:

| Conversion of Annual Salary to Weekly Gross Pay |  |
|---|--|
| Step 1:   | Determine the weekly salary.   |
| Step 2:   | Determine the hourly regular wage rate.                              |
| Step 3:   | Convert to an hourly overtime wage rate.                             |
| Step 4:   | Calculate overtime wages earned.                                     |
| Step 5:   | Determine gross pay by adding regular earnings to overtime earnings. |

***TIP!*** *If an employee receives a monthly or semimonthly salary, begin the conversion process by multiplying either the monthly salary by 12 months or the semimonthly salary by 24.*

# Commissions, Bonuses, and Incentive Plans

## ■ Commission

- A percentage of each sale

## ■ Bonus

- Planned or unplanned additional amounts

## ■ Incentive Plan

- More pay for increased productivity



# Paying Commissions

- May be the only form of earned income or may be earned in conjunction with a salary
- Commission calculation example:

| Calculation of Regular Hourly Wage Rate Including Commission |   |
|--|---|
| Step 1:  | Determine total regular wages.<br>( $\$10 \times 40 \text{ hours} = \$400$ )                    |
| Step 2:  | Add the commission to the above amount.<br>( $\$400 + \$200 = \$600$ )                          |
| Step 3:  | Divide the combined total by the regular hours worked.<br>( $\$600 / 40 \text{ hours} = \$15$ ) |

# Awarding Bonuses

## ■ Discretionary Bonus

- Unplanned, not contingent on a specific goal
- Not considered part of regular pay

## ■ Nondiscretionary Bonus

- Planned, paid on meeting a specific metric
- Considered part of regular pay
- Must be combined with regular hourly wages to determine overtime pay



# Offering Incentive Plans

- Reward employee for performance and loyalty
  - Cash (may be paid in lump sum)
  - Profit-sharing plans
  - Stock options
  - Additional vacation days
  - Sabbaticals

***TIP!** For FLSA, cash paid is considered a nondiscretionary bonus, which is, therefore, a component of regular pay.*





# Alternative Pay Considerations

- Self-employment income
- Tipped employees
- Employees paid for piecework

# Self-Employment Income

- Revenue claimed minus expenses incurred
- Must track total income to pay appropriate taxes

# Tipped Employees

## ■ Covered by FLSA

- Receive a specified amount in tips per month
- Tip credit
  - ◆ Employees receive special minimum wage
  - ◆ Employers must inform employees of using tip credit
- Tip pool
  - ◆ All employee tips added together and then divided among employees

***WARNING!*** Under no circumstance may an employer retain an employee's tips.



# Utilizing Piecework Systems

- Based on output; a fixed amount per unit
- FLSA minimum wage requirements apply
  - Employer must determine hourly rate for piecework employee

| Piecework Overtime Calculation |  |
|--------------------------------|--|
| Step 1:                        | Piece rate × units of output = regular earnings for all hours                          |
| Step 2:                        | Regular earnings for all hours / total hours worked = regular hourly rate              |
| Step 3:                        | Regular hourly rate × additional overtime factor = additional overtime hourly rate     |
| Step 4:                        | Additional overtime hourly rate × overtime hours worked = additional overtime earnings |
| Step 5:                        | Regular earnings for all hours + additional overtime earnings = total earnings         |

# Payroll Register

- Shows each employee's pay for a single period

The payroll register displays both total earnings (gross pay) and each employee's paycheck amount (net pay).

**Payroll Register**

Pay Period \_\_\_\_\_

Pay Date \_\_\_\_\_

| Employee Name  | <i>Earnings</i> |              |                  |                |               |                   |                | <i>Deductions</i> |     |                 |          |            | Check Number | Net Pay |
|----------------|-----------------|--------------|------------------|----------------|---------------|-------------------|----------------|-------------------|-----|-----------------|----------|------------|--------------|---------|
|                | Regular Hours   | Regular Rate | Regular Earnings | Overtime Hours | Overtime Rate | Overtime Earnings | Total Earnings | FWT               | SWT | Social Security | Medicare | Vol. With. |              |         |
|                |                 |              |                  |                |               |                   |                |                   |     |                 |          |            |              |         |
|                |                 |              |                  |                |               |                   |                |                   |     |                 |          |            |              |         |
|                |                 |              |                  |                |               |                   |                |                   |     |                 |          |            |              |         |
|                |                 |              |                  |                |               |                   |                |                   |     |                 |          |            |              |         |
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|                |                 |              |                  |                |               |                   |                |                   |     |                 |          |            |              |         |
|                |                 |              |                  |                |               |                   |                |                   |     |                 |          |            |              |         |
| <b>Totals:</b> |                 |              |                  |                |               |                   |                |                   |     |                 |          |            |              |         |