

# 2

## Calculating Employee Pay

# 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 the receipt of the paycheck.

- Example: This weekly pay period runs Monday through Sunday:

JULY 2023						
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					

A check received on 7/14  
pays for hours worked  
Monday 7/3 through  
Sunday 7/9

# 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

Several considerations:

- Wages must be in compliance with the Equal Pay Act of 1963.
- State minimum wages may be significantly higher than the federal level (the higher wage prevails).
- Time cards must be established for each employee.
  - These are used to track hours worked for those paid on an hourly basis.
  - Sometimes even salaried employees complete time cards.
  - An increasing number 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

CALCULATING WEEKLY REGULAR EARNINGS	
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 ways to calculate overtime pay:

Add regular wages to overtime wages.

CALCULATING GROSS WAGES	
Method 1	Regular wages + overtime wages
Method 2	Total regular wages (all hours) + additional pay for overtime hours

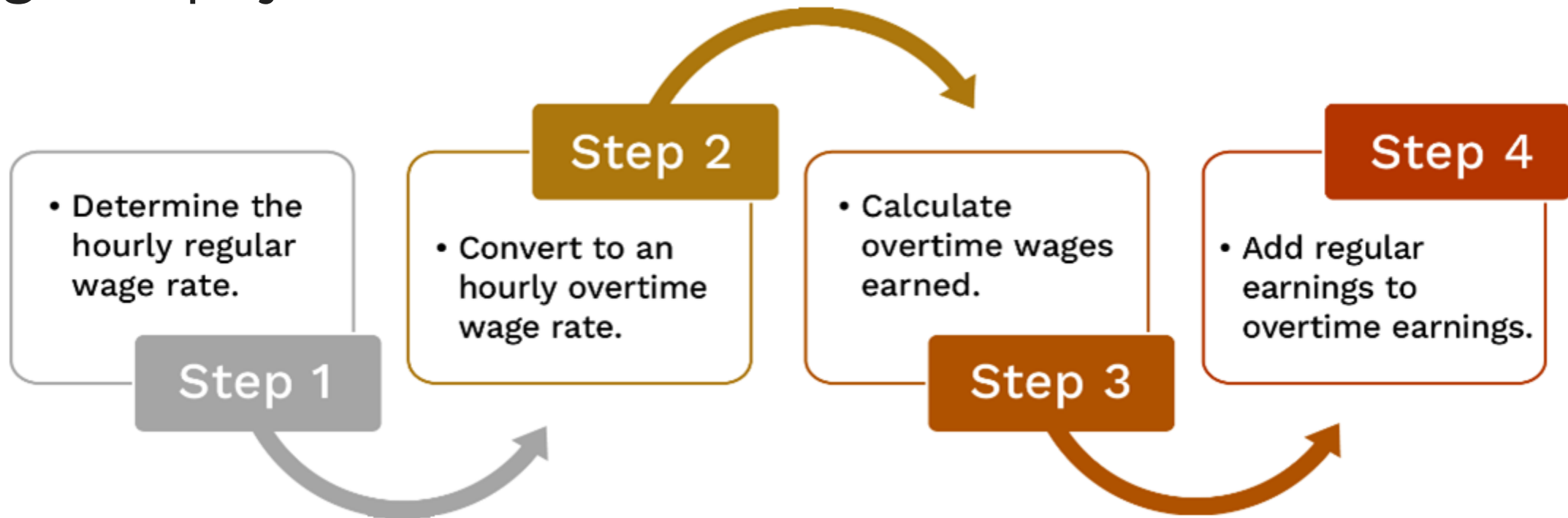
Add regular wages for total hours plus pay earned for the overtime hours worked.

# 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.

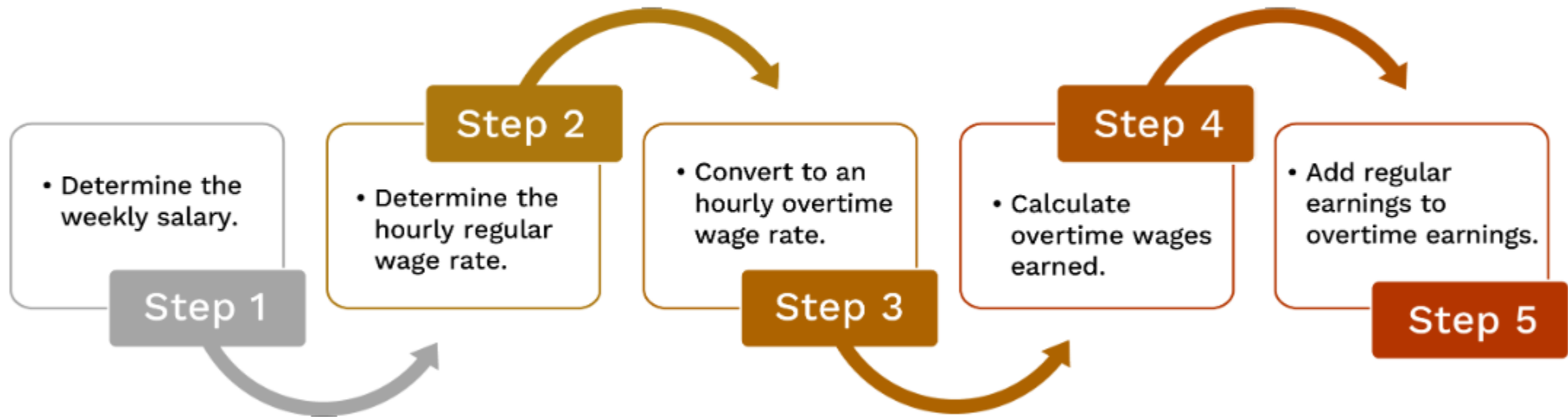
# Weekly Wage Conversions

Use this four-step process to convert a weekly wage to an hourly rate and then calculate total gross pay:



# Annual Salary Conversions

Use this five-step process to convert annual salary to an hourly wage and calculate gross pay:



**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

- Commissions may be the only form of earned income or may be earned in conjunction with a salary.
- Calculation example:

CALCULATING REGULAR HOURLY WAGE RATE INCLUDING COMMISSION	
Step 1	Determine total regular wages. ( $\$10 \times 44 \text{ hours} = \$440$ )
Step 2	Add the commission to the total regular wages. ( $\$440 + \$220 = \$660$ ).
Step 3	Divide the combined total by the regular hours worked. ( $\$660 \div 44 \text{ hours} = \$15$ )

# 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

- Individuals operating sole proprietorships or partnerships must report annual self-employment income so appropriate taxes are paid.
- Income is the revenue claimed by the company minus the expenses incurred.

# Tipped Employees

## Covered by FLSA

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

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

# Utilizing Piecework Systems

- These are based on output; a fixed amount per unit.
- FLSA minimum wage requirements apply.
  - The employer must determine the hourly rate for a piecework employee.

CALCULATING PIECEWORK OVERTIME	
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

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