

Business and Personal Finance © 2012

Chapter 8: Managing Payroll and Inventory

Check Your Answers: Section Assessment

Section 1

Review Key Concepts

1. Calculate gross earnings, payroll deductions, prepare payroll records, paychecks, record payroll information, report payroll information.
2. Employers add the total amount of all money paid to employees to determine gross earnings.
3. Required: federal income tax, FICA taxes, and state and local income tax. Voluntary: health insurance, union dues, and retirement plans.
4. Employers must comply with IRC rules by keeping up-to-date and accurate payroll information for filing required reports and making the necessary payments.

Higher Order Thinking

5. Advantages: you do not have to pay overtime. Disadvantages: you have to pay the same amount, even if the employee works fewer hours. Preferences will vary, but may include a salaried employee works overtime without extra pay.

21st Century Skills

6. **Solve Problems** Leigh is paying her current employees \$1,350 in overtime each week ($\$7.50 \times 1.5 \times 8 \text{ hours} \times 15 \text{ employees} = \$1,350$). It would be less expensive to hire three full-time employees ($\$7.50 \times 40 \times 3 = \900) than to pay the overtime.

Mathematics

7. **Earnings and Tax** Salaried employee wages = $\$750 + \$700 = \$1,450$; Overtime hourly wage = $\$9.75 \times 1.5 = \14.63 ; Hourly employee 1 wages = $(40 \text{ hrs} \times \$9.75) + (3 \text{ hrs} \times \$14.63) = \$433.89$; Hourly employee 2 wages = $(40 \text{ hrs} \times \$9.75) + (5 \text{ hrs} \times \$14.63) = \$463.15$; Total gross earnings = $\$1,450 + \$433.88 + \$463.13 = \$2,347.04$; Employee FICA contribution = $\$2,347.04 \times (6.20\% + 1.45\%) = \179.55 ; Company FICA payment to government = $\$179.55 \times 2 = \359.09 .