CH. 11 PART 1 CHEAT CARD — PAYROLL

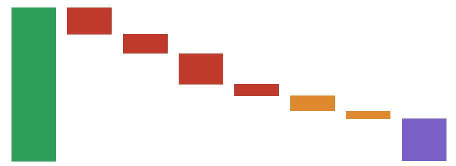
1 THE THREE NUMBERS — gross, deductions, net

GROSS = regular hrs × rate + overtime hrs × (1½ × rate)

overtime = hours past 40 in a week · salary = annual ÷ pay periods

DEDUCTIONS = mandatory (law) + voluntary (signed)

NET PAY = gross − deductions



2 THE TAXES — two ceilings · who pays what

THE TAX	THE CEILING	EMPLOYEE (withheld)	EMPLOYER (expense)
Social Security 6.2%	stops at 184,500 a year	✔ withheld	✔ matched
Medicare 1.45%	no ceiling — every dollar	✔ withheld	✔ matched
Federal + state income tax	W-4 → the table · state %	✔ withheld	✘ just the middleman
FUTA 0.6% + SUTA 5.4%	stop at 7,000 a year (state base varies)	✘ never	✔ expense

3 THE ENTRY ATLAS — every entry, the formula beside each line

1 · RECORD THE PAYROLL

	Dr.	Cr.
Salaries and Wages Expense	gross	
each Taxes / Contributions Payable		withheld
Salaries and Wages Payable		net pay

2 · PAY THE PEOPLE

	Dr.	Cr.
Salaries and Wages Payable	net pay	
Cash		net pay

no expense here — that was entry 1

3 · EMPLOYER PAYROLL TAXES

	Dr.	Cr.
Payroll Tax Expense	sum of four	
Social Security · Medicare Payable		× 6.2% · × 1.45%
FUTA Payable · SUTA Payable		× 0.6% · × 5.4%

4 · SEND IT ON — government, plan, charity

	Dr.	Cr.
each Payable (both FICA halves together)	balance held	
Cash		the total sent

paying what you owe is never a new expense · W-2 to every employee at year end

5 · VACATION — earned now, paid later

	Dr.	Cr.
Vacation Benefits Expense	days earned × day rate	
Vacation Benefits Payable		days earned × day rate
Vacation Benefits Payable / Cr. Cash	days taken × day rate	

THE EXAM TRAPS: paying what you owe is never a new expense · the employer never pays income tax for you · the employee never pays unemployment tax

US rules, 2026 rates — Canada uses CPP/EI and different ceilings; same method. Verify current figures.

CH. 11 PART 2 CHEAT CARD — AFTER YOU RETIRE

1 THE RULE — and the three parties in every plan

A BENEFIT IS AN EXPENSE IN THE YEAR IT IS EARNED — NOT THE YEAR IT IS PAID

earned while the employee works · the cheque may be decades away · the liability is born when earned

EMPLOYER → PLAN ADMINISTRATOR → RETIREES

promises · pays in — holds · invests — receive the cheques

2 THE THREE PROMISES — what each one defines · who carries the risk

THE PROMISE	DEFINES	EXPENSE =	LIABILITY WHEN	THE RISK
Defined-contribution (savings plan)	money IN — the contribution	cash paid in	only if the money is late	the EMPLOYEE
Defined-benefit (the pension)	money OUT — by formula	the actuary's cost	cost more than cash paid in	the COMPANY
Retiree healthcare	future bills — an estimate	this year's estimate	almost always — rarely funded	the COMPANY

3 THE ENTRY ATLAS — every entry, the formula beside each line

1 · DEFINED-CONTRIBUTION

	Dr.	Cr.
Pension Expense	**wages × the %**	
Cash		**the contribution**

not sent yet: Cr. Pension Liability instead

2 · DEFINED-BENEFIT

	Dr.	Cr.
Pension Expense	**actuary's cost**	
Cash		**amount funded**
Pension Liability		**cost − funded**

funded MORE than the cost: Dr. Pension Asset

3 · RETIREE HEALTHCARE

	Dr.	Cr.
Postretirement Benefits Expense	**the estimate**	
Cash		**if any is funded**
Postretirement Benefits Liability		**the unfunded part**

paid years later: Dr. the Liability / Cr. Cash

THE PENSION FORMULA · THE BALANCE SHEET

defined-benefit pension = % × years of service × final pay

Pension Liability: due within a year → CURRENT · the rest → LONG-TERM

Postretirement Benefits Liability → LONG-TERM · the notes describe the plans

PAYING WHAT YOU PROMISED — never a new expense

Dr. Pension Liability / Cr. Cash

Dr. Postretirement Benefits Liability / Cr. Cash

booked when earned — the cheque only clears the liability

THE EXAM TRAPS: **a liability appears the year the promise is EARNED, not the year it is paid · funded more than the cost is an ASSET, not a negative liability**

defined-contribution: expense = cash paid in, the promise ends there · defined-benefit: expense = the actuary's cost, the gap is a liability