

# CHAPTER 11

# Reading a Pay Stub (1/2)

## Procedure

**Activity:** Individual

⌚ 30 MINUTES

**Materials:** Activity handout

**Objective:** The purpose of this activity is for students to interpret the information found on a pay stub. Students will also investigate what employers do with money deducted from employee paychecks.

**STANDARD Financial Analysis Standard:** Understands tools, strategies and systems used to maintain, monitor, control and plan the use of financial resources.

① Review these terms with your students:

- **Pay period:** Set length of time (typically weekly, bi-weekly, or monthly) over which employee time is recorded and paid
- **Gross pay:** The amount people earn per pay period before any deductions or taxes are taken out.
- **Net pay:** Gross pay minus deductions and taxes
- **Payroll deduction:** The amounts subtracted from gross pay, which results in your net pay
- **Pension:** A sum of money paid regularly as a retirement benefit
- **401(k):** A retirement savings plan to which contributions are made by the employee and employer and are invested; it is tax-deferred
- **FICA (Federal Insurance Contributions Act):** A payroll tax used to fund Social Security and Medicare

② Have students reference the information found on the sample pay stub and have them answer the following questions:

- Ⓐ What is the employee's gross pay? *\$1,200.00*
- Ⓑ How much local tax is deducted from the paycheck? *\$23.13*
- Ⓒ How much state tax is deducted from the paycheck? *\$40.06*
- Ⓓ How much federal tax is deducted from the paycheck? *\$157.39*
- Ⓔ How much did the employee contribute to FICA? *\$71.69*
- Ⓕ How much did the employee contribute to Medicare? *\$16.77*
- Ⓖ How much did the employee pay for the other deductions? *\$91.75 (total adjustments)*
- Ⓗ What was the purpose of the other deductions? *Health insurance and 401(k)*
- Ⓘ What is the employee's net pay? *\$809.21*
- Ⓝ What percent of the employee's paycheck is deducted for taxes and other expenses? *33%*

# Reading a Pay Stub (2/2)

- 3 Have students access the Internal Revenue Service’s website at: <http://www.irs.gov/publications/p15/ar02.html#d02.html#d0e1690> (a link to this site can be found on [foundationsU.com](http://foundationsU.com)). Explain to students that this page consists of guidelines for what employers do with the money deducted from their employees’ paychecks. Using the menu on the website, students will answer the following questions (Note: Words in bold type are intended to guide students’ search).
  - How must an employer report his/her employees’ tips to the IRS? *Answer: Report tips and any collected and uncollected Social Security and Medicare taxes on Form W-2 and on form 941, lines 5b, 5c, and 5d (form 944, lines 4b, and 4c).*
  - What is an Employer Identification Number (EIN)? *Answer: If you are required to report employment taxes or give tax statements to employees, you need an EIN. The EIN is a nine-digit number issued by the IRS.*
  - How should an employer go about withholding tax when he/she has no regular payroll period? *Answer: Employers should withhold the tax as if you paid wages for a daily or miscellaneous payroll period.*
- 4 Divide students into groups and help them use an online presentation tool to develop a presentation explaining the parts of a pay stub.
- 5 Select the best presentation and share it with other students. You may want to use the winning presentation to review the components of a pay stub prior to the course final exam.

# Reading a Pay Stub (1/3)

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## Directions

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1 Review these terms before completing this activity:

- **Pay period:** Set length of time (typically weekly, bi-weekly, or monthly) over which employee time is recorded and paid
- **Gross pay:** The amount people earn per pay period before any deductions or taxes are taken out
- **Net pay:** Gross pay minus deductions and taxes
- **Payroll deduction:** The amounts subtracted from gross pay, which result in your net pay
- **Pension:** A sum of money paid regularly as a retirement benefit
- **401(k):** A retirement savings plan to which contributions are made by the employee and employer and are invested; it is tax-deferred
- **FICA (Federal Insurance Contributions Act):** A payroll tax used to fund Social Security and Medicare

2 Reference the information found on the sample pay stub and answer the following questions:

A What is the employee's gross pay?

\_\_\_\_\_

B How much local tax is deducted from the paycheck?

\_\_\_\_\_

C How much state tax is deducted from the paycheck?

\_\_\_\_\_

D How much federal tax is deducted from the paycheck?

\_\_\_\_\_

E How much did the employee contribute to FICA?

\_\_\_\_\_

F How much did the employee contribute to Medicare?

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G How much did the employee pay for the other deductions?

\_\_\_\_\_

H What was the purpose of the other deductions?

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# Reading a Pay Stub (2/3)

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**I** What is the employee's net pay?

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**J** What percent of the employee's paycheck is deducted for taxes and other expenses?

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**3** Access the Internal Revenue Service's website at: <http://www.irs.gov/publications/p15/ar02.html#d02.html#d0e1690> (a link to this site can be found on [foundationsU.com](http://foundationsU.com)). This page consists of guidelines for what employers do with the money deducted from their employees' paychecks. Using the menu on the website, answer the following questions (Note: Words in bold type are intended to guide your search.).

**A** How must an employer report his/her employees' tips to the IRS?

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**B** What is an Employer Identification Number (EIN)?

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**C** How should an employer go about withholding tax when he/she has no regular payroll period?

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**4** You will be divided into groups. Using an online presentation tool, develop a presentation explaining the parts of a pay stub.

**5** The best presentation will be selected and shared with others.

# Reading a Pay Stub (3/3)

## Sample pay stub

<b>EXAMPLE COMPANY, INC.</b> 555 MAIN ST. ANYCITY, TN 12345		1756-000200 56-9999 9999	07/25/2013 DATE	25 CHECK NO.
PAY TO THE ORDER OF <b>JOHN DOE</b> 123 LAMPO DRIVE ANYCITY, TN 12345		<b>**VOID**</b> AMOUNT		
**VOID**THIS IS NOT A CHECK**VOID**THIS IS NOT A CHECK**				
SAMPLE BANK ANYCITY, TN	DEPOSIT ACCOUNT 3395	DEPOSIT AMOUNT *****\$809.21	<b>** Non Negotiable **</b>	
AUTHORIZED SIGNATURE _____				

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▲ FOLD AND REMOVE
FOLD AND REMOVE ▲

YOUR BANKING			EARNINGS				
ITEM	AMOUNT	DEPOSIT TO ACCT #	HOURS	RATE	AMOUNT	YTD AMOUNT	
NET	664.21	3395	HOLIDAY	8.00	15.000	120.00	
			VACATION	8.00	15.000	120.00	
			REGULAR	64.00	15.000	960.00	
TOTAL EARNINGS						1200.00	17622.50

  

EMPLOYER INFORMATION			FILING STATUS				
EXAMPLE COMPANY, INC.				TAX TYPE	AMOUNT	YTD AMOUNT	
555 MAIN ST.				SOC SEC	71.69	1054.65	
ANYCITY, TN 12345				MEDICARE	16.77	246.69	
	\$ 00	+20		FEDERAL	157.39	2396.21	
	\$ 00	+5		TN	40.06	599.12	
	\$ 00			AC	23.13	340.27	
TOTAL WITHHOLDINGS						309.04	4636.94

  

PERSONAL INFORMATION			ADJUSTMENTS			
JOHN DOE				AMOUNT	YTD AMOUNT	
123 LAMPO DRIVE				EXP REIMB	10.00 +	164.00 +
ANYCITY, TN 12345				HLTH	43.75 -	612.50 -
	SS#	XXX-XX-0407		EXMPLCO 401K	48.00 -	704.90 -
	EMPL#	000004				
	DEPT#	000200				
TOTAL ADJUSTMENTS						81.75 -

  

PAY PERIOD 06/19/13 TO 07/02/13 CHECK DATE 07/23/13      CHECK # 25			<b>NET PAY</b>		<b>809.21</b>	<b>11,832.16</b>
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PAYROLLS FOR EXAMPLE COMPANY, INC.  
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