Heintz & Parry

20th Edition

College Accounting

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Chapter 9

Payroll Accounting: Employer Taxes and Reports

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Learning Objective 1

Describe and calculate employer payroll taxes.

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Employer Payroll Taxes

- In addition to the gross pay for each employee, the employer must pay payroll taxes
  - FICA
  - FUTA (Federal Unemployment Tax Act)
  - SUTA (state unemployment tax)

- These taxes add substantially to the cost of having employees

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Employer FICA Taxes

Both the employee and employer pay FICA taxes. Each pays an equal share.

Social Security = 6.2%

on maximum earnings of $106,800

The amount of earnings subject to Social Security tax is obtained from the payroll register.

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Payroll Register (Left Side)

			EARNINGS		
NAME	# ALLOW.	MARITAL STATUS	REGULAR	OVER-TIME	TOTAL
Cadrain, Sarah	4	M	1,600.00	60.00	1,660.00
Guder, James	1	S	760.00	140.00	900.00
Istone, Ken	6	M			545.00
Kuzmik, Helen	2	M		.00	774.00
Lee, Hoseoup	3	M	440.00		440.00
Swaney, Linda	2	S	528.00	198.00	726.00
Tucci, Paul	5	M	490.00		490.00
Wiles, Harry	1	S	300.00		300.00
			5,143.00	692.00	5,835.00

Sarah earned $1,660 this period….

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Payroll Register (Left Side)

EARNINGS	TAXABLE EARNINGS		
TOTAL	CUMULATIVE TOTAL	UNEMPLOYMENT COMP.	SOCIAL SECURITY
1,660.00	107,800		660.00
900.00	43,400.00		900.00
545.00	[illegible]		545.00
774.00			774.00
440.00			440.00
726.00			726.00
490.00	25,050.00		490.00
300.00	6,300.00	300.00	300.00
5,835.00	290,415.00	300.00	4,835.00

But only $660 of her earnings are below the maximum and therefore subject to Social Security tax.

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Payroll Register (Left Side)

EARNINGS	TAXABLE EARNINGS		
TOTAL	CUMULATIVE TOTAL	UNEMPLOYMENT COMP.	SOCIAL SECURITY
1,660.00	107,800.00		660.00
900.00	43,400.00		900.00
545.00	27,025.00		545.00
774.00	31,000.00		774.00
440.00	22,340.		440.00
726.00	27,500.		726.00
490.00	25,050.		490.00
300.00	6,300.00	300.00	300.00
5,835.00	290,415.00	300.00	4,835.00

This period's total earnings are subject to Social Security tax.

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Employer FICA Taxes

Social Security Taxable Earnings	x	Tax Rate	=	Tax
$4,835.00	x	**6.2%**	=	**$299.77**

$299.77	*Withheld from employee*
+ 299.77	*Paid by employer*
$599.54	*Total Social Security tax to be paid to the IRS*

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Employer FICA Taxes

Medicare = 1.45% of ALL earnings

Total Earnings	x	Tax Rate	=	Tax
$5,835	x	**1.45%**	=	**$84.61**

$84.61	*Withheld from employee*
+ 84.61	*Paid by employer*
$169.22	*Total Medicare tax to be paid to the IRS*

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Self-Employment Tax

- Paid by individuals who own and run their own business
  - These individuals can be viewed as both employee and employer
  - They do not receive salary or wages from the business, but they do have earnings in the form of the business net income (self-employment income)
- Self-employment tax rates are double the Social Security and Medicare rates

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Employer FUTA Tax

The FUTA (Federal Unemployment Tax Act) tax is levied on employers to raise funds to administer the combined federal/state unemployment compensation program.

The current rate is 6.2% applied to maximum earnings of $7,000 for each employee, but employers are allowed a credit of up to 5.4% for participation in state unemployment programs.

Let's look back at the payroll register and determine the FUTA tax owed.

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Payroll Register (Left Side)

EARNINGS	TAXABLE EARNINGS		
TOTAL	CUMULATIVE TOTAL	UNEMPLOYMENT COMP.	SOCIAL SECURITY
1,660.00	107,800.00		660.00
900.00	43,400.00		900.00
545.00	27,025.0		545.00
774.00	31,000		774.00
440.00	22,340		440.00
726.00	27,500.		726.00
490.00	25,050.00		490.00
300.00	**6,300.00**	**300.00**	**300.00**
5,835.00	290,415.00	300.00	4,835.00

Only one employee's earnings is below the $7,000 earnings limit and therefore subject to the FUTA tax.

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Payroll Register (Left Side)

EARNINGS	TAXABLE EARNINGS		
TOTAL	CUMULATIVE TOTAL	UNEMPLOYMENT COMP.	SOCIAL SECURITY
1,660.00	107,800.00		660.00
			900.00
			545.00
			774.00
			440.00
726.00	27,500.00		726.00
490.00	25,050.00		490.00
300.00	**6,300.00**	**300.00**	**300.00**
5,835.00	290,415.00	300.00	4,835.00

A credit of 5.4% is granted because this company participates in a state unemployment program.

(6.2% – 5.4% = 0.8% FUTA rate)

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Payroll Register (Left Side)

EARNINGS	TAXABLE EARNINGS		
TOTAL	CUMULATIVE TOTAL	UNEMPLOYMENT COMP.	SOCIAL SECURITY
1,660.00	107,800.00		660.00
900.00	43,400.00		900.00
545.00			545.00
774.00			774.00
440.00			440.00
726.00	27,500.00		726.00
490.00	25,050.00		490.00
300.00	**6,300.00**	**300.00**	**300.00**
5,835.00	290,415.00	300.00	4,835.00

FUTA tax is $2.40.
($300 × 0.8%)

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Employer SUTA Tax

- Levied on employers in most states
- The purpose of this tax is to raise funds to pay unemployment benefits
- A common rate is 5.4% applied to maximum earnings of $7,000 for each employee
- Most states have a merit-rating system to encourage employers to provide regular employment to workers
  - If an employer has very few former employees receiving unemployment compensation, the employer qualifies for a lower state unemployment tax rate

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Payroll Register (Left Side)

EARNINGS	TAXABLE EARNINGS		
TOTAL	CUMULATIVE TOTAL	UNEMPLOYMENT COMP.	SOCIAL SECURITY
1,660.00	107,800.00		660.00
900.00	43,400.00		900.00
545.00			545.00
774.00			774.00
440.00			440.00
726.00	27,500.00		726.00
490.00	25,050.00		490.00
300.00	**6,300.00**	**300.00**	**300.00**
5,835.00	290,415.00	300.00	4,835.00

SUTA tax is $16.20.

($300 × 5.4%)

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Learning Objective 2

Account for employer payroll taxes expense.

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General Journal

	DATE		DESCRIPTION	PR	DEBIT	CREDIT
1						
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A journal entry is needed to record the expense and liabilities of these payroll taxes.

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Payroll Register (Left Side)

EARNINGS	TAXABLE EARNINGS		
TOTAL	CUMULATIVE TOTAL	UNEMPLOYMENT COMP.	SOCIAL SECURITY
1,660.00	107,800.00		660.00
900.00			900.00
545.00			545.00
774.00			774.00
440.00			440.00
726.00	,500.00		726.00
490.00	25,050.00		490.00
300.00	6,300.00	300.00	300.00
5,835.00	290,415.00	**300.00**	**4,835.00**

Step #1

Obtain the total earnings and taxable earnings amounts from the Earnings—Total and Taxable Earnings columns of the payroll register.

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Payroll Register (Left Side)

EARNINGS	TAXABLE EARNINGS		
TOTAL	CUMULATIVE TOTAL	UNEMPLOYMENT COMP.	SOCIAL SECURITY
1,660.00	107,800.00		660.00
900.00	43,400.00		900.00
			545.00
			774.00
			440.00
			726.00
490.00	25,050.00		490.00
300.00	6,300.00	300.00	300.00
5,835.00	290,415.00	300.00	4,835.00

Step #2

Compute the amount of employer Social Security tax by multiplying the Social Security taxable earnings by 6.2%.

($4,835 × 6.2% = $299.77)

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Payroll Register (Left Side)

EARNINGS	TAXABLE EARNINGS		
TOTAL	CUMULATIVE TOTAL	UNEMPLOYMENT COMP.	SOCIAL SECURITY
1,660.0			660.00
900.			900.00
545.			545.00
774.			774.00
440.			440.00
726.00	.00		726.00
490.00	25,050.00		490.00
300.00	6,300.00	300.00	300.00
5,835.00	290,415.00	300.00	4,835.00

Step #3

Compute the amount of employer Medicare tax by multiplying total earnings by 1.45%.

($5,835 × 1.45% = $84.61)

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Payroll Register (Left Side)

EARNINGS	TAXABLE EARNINGS		
TOTAL	CUMULATIVE TOTAL	UNEMPLOYMENT COMP.	SOCIAL SECURITY
1,6			660.00
			900.00
			545.00
			774.00
			440.00
7			726.00
490.00	25,050.00		490.00
300.00	6,300.00	300.00	300.00
5,835.00	290,415.00	300.00	4,835.00

Step #4

Compute the amount of FUTA tax by multiplying the Unemployment Taxable earnings by 0.8%.

($300 × 0.8% = $2.40)

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Payroll Register (Left Side)

EARNINGS	TAXABLE EARNINGS		
TOTAL	CUMULATIVE TOTAL	UNEMPLOYMENT COMP	SOCIAL SECURITY
1,660.00	107,8		
900.00	43,4		
545.00	27,0		
774.00	31,0		
440.00	22,3		
726.00	27,500.00		726.00
490.00	25,050.00		490.00
300.00	6,300.00	300.00	300.00
5,835.00	290,415.00	300.00	4,835.00

Step #5

Compute the amount of SUTA tax by multiplying the Unemployment Taxable earnings by 5.4%.

($300 × 5.4% = $16.20)

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General Journal

	DATE		DESCRIPTION	PR	DEBIT	CREDIT
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Step #6

Prepare the appropriate journal entry using the amounts computed in steps 2–5.

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Journalizing Employer Payroll Taxes

	DATE		DESCRIPTION	PR	DEBIT	CREDIT
1	Dec.	19	**Payroll Taxes Expense**		402.98	
2			**Social Security Tax Payable**			299.77
3			**Medicare Tax Payable**			84.61
4			**FUTA Tax Payable**			2.40
5			**SUTA Tax Payabl**			16.20
6						
7						
8						
9						
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Payroll Taxes Expense is debited for the total of all employer taxes.

($299.77 + 84.61 + 2.40 + 16.20)

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Journalizing Employer Payroll Taxes

	DATE		DESCRIPTION	PR	DEBIT	CREDIT
1	Dec.	19	**Payroll Taxes Expense**		402.98	
2			**Social Security Tax Payable**			299.77
3			**Medicare Tax Payable**			84.61
4			**FUTA Tax Payable**			2.40
5			**SUTA Tax Payable**			16.20
6			Employer payroll taxes for week ended Dec. 19			
7						
8						
9						
10						
11						

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Payroll Taxes Expenses

PAYROLL TAXES EXPENSE	
DEBIT	CREDIT

Debited for the Social Security, Medicare, FUTA, and SUTA taxes imposed on the employer.

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Social Security Tax Payable

SOCIAL SECURITY TAX PAYABLE

DEBIT	CREDIT
Debited when taxes are paid.	*Credited when taxes are withheld from employees' earnings and also for taxes imposed on the employer.*

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Medicare Tax Payable

MEDICARE TAX PAYABLE

DEBIT	CREDIT

EXACTLY THE SAME AS SOCIAL SECURITY TAX PAYABLE

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FUTA Tax Payable

FUTA TAX PAYABLE

DEBIT	CREDIT
Debited when taxes are paid.	*Credited for taxes imposed on the employer.*

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SUTA Tax Payable

SUTA
TAX PAYABLE

DEBIT	CREDIT

EXACTLY THE SAME AS FUTA TAX PAYABLE

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Total Payroll Cost of an Employee

Gross wages	$26,000

Let's look at the total costs of an employee who earns $26,000/year.

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Total Payroll Cost of an Employee

Gross wages	$26,000
Social Security	1,612

$26,000 × 6.2%

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Total Payroll Cost of an Employee

Gross wages	$26,000
Social Security	1,612
Medicare	377

$26,000 × 1.45%

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Total Payroll Cost of an Employee

Gross wages	$26,000
Social Security	1,612
Medicare	377
SUTA	378

$7,000 × 5.4%

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Total Payroll Cost of an Employee

Gross wages	$26,000
Social Security	1,612
Medicare	377
SUTA	378
FUTA	56

$7,000 × 0.8%

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Total Payroll Cost of an Employee

Gross wages	$26,000
Social Security	1,612
Medicare	377
SUTA	378
FUTA	56
	$28,423

Total cost!

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Learning Objective 3

Describe employer reporting and payment responsibilities.

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Reporting and Payment of Taxes

Determining when payments of federal income tax withholding, Social Security, and Medicare taxes are due:

Accumulated Tax Liability:	Deposit Due:
Less than $2,500 at the end of the current quarter	**Pay with Form 941 at end of the month following end of the quarter**
$2,500 or more at the end of the current quarter and $50,000 or less in total during the lookback period	Deposit 15 days after end of the month
$2,500 or more at the end of the current quarter and more than $50,000 in total during the lookback period	Deposit every other Wednesday or Friday, depending on day of week payroll payments are made
$100,000 or more on any day during the current quarter	Deposit by the end of the next banking day

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Lookback Period

The four quarters beginning July 1, two years ago, and ending June 30, one year ago

Large amounts of payroll taxes in the "lookback period" require frequent future deposits.

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Depositing Payroll Taxes

- **Deposits may be made using either:**
  - The Electronic Federal Tax Payment System (EFTPS)
    - An electronic funds transfer system
    - Required for taxpayers who deposited more than $200,000 in the prior year
  - Form 8109 Federal Tax Deposit Coupon
    - Submitted with the deposit made at:
      - ✓ Federal Reserve Bank, or
      - ✓ Other authorized commercial bank

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Form 8109

- **Includes:**
  - Employer Identification Number (EIN)
    - Obtained from the IRS
    - Must be shown on all payroll forms and reports filed with the IRS
  - Amount of the deposit
  - Type of tax
  - Tax period

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General Journal

	DATE		DESCRIPTION	PR	DEBIT	CREDIT
1						
2						
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Each deposit requires a journal entry.

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General Journal

	DATE		DESCRIPTION	PR	DEBIT	CREDIT
1	Feb.	15				
2						
3						
4						
5						
6						
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11						

This company's quarterly payroll taxes exceed $2,500; therefore, the January deposit is due on the 15th of February.

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Journal Entry for Taxes Deposit

	DATE		DESCRIPTION	PR	DEBIT	CREDIT
1	Feb.	15	**Employee Income Tax Payable**		**2,526.80**	
2			**Social Security Tax Payable**		**2,692.48**	
3			**Medicare Tax Payable**		**631.60**	
4						
5						
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This payment includes both the employer and employee portions and leaves the liability accounts with zero balances.

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Journal Entry for Taxes Deposit

	DATE		DESCRIPTION	PR	DEBIT	CREDIT
1	Feb.	15	**Employee Income Tax Payable**		**2,526.80**	
2			**Social Security Tax Payable**		**2,692.48**	
3			**Medicare Tax Payable**		**631.60**	
4			**Cash**			**5,850.88**
5			Deposit of employee federal income tax and			
6			Social Security and Medicare taxes			
7						
8						
9						
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11						

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Form 941

- **Employer's Quarterly Federal Tax Return**
  - Must be filed with the IRS at the end of the month following each calendar quarter
    - Due April 30, July 31, October 31, and January 31
  - Reports the following taxes for the quarter:
    - Employee federal income tax withheld
    - Employee Social Security and Medicare taxes withheld
    - Employer Social Security and Medicare taxes

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FUTA Taxes

- Calculated quarterly
- The deposit is due by the end of the month following the close of the quarter
  - A deposit is required only when the amount exceeds $500
    - If the liability is $500 or below, the amount is added to the following quarter's deposit
  - FUTA taxes are deposited using Form 8109 or EFTPS

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Journal Entry for Payment of FUTA Taxes

	DATE		DESCRIPTION	PR	DEBIT	CREDIT
1	Apr.	30	**FUTA Tax Payable**		**508.00**	
2			**Cash**			**508.00**
3						
4						
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FUTA is paid on the first $7,000 of earnings per employee. The first quarter's deposit is usually the largest.

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Journal Entry for Payment of FUTA Taxes

	DATE		DESCRIPTION	PR	DEBIT	CREDIT
1	Apr.	30	**FUTA Tax Payable**		**508.00**	
2			**Cash**			**508.00**
3			Paid federal unemployment tax.			
4						
5						
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SUTA Taxes

- Usually required on a quarterly basis
- Forms required vary by state

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Journal Entry for Payment of SUTA Taxes

	DATE		DESCRIPTION	PR	DEBIT	CREDIT
1	Apr.	30	**SUTA Tax Payable**		**2,754.00**	
2			**Cash**			**2,754.00**
3			Paid state unemployment tax.			
4						
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Wage and Tax Statement W-2

- Given to each employee by January 31
  - Shows the total amount of wages paid and taxes withheld during the preceding taxable year
  - Prepared from the employee earnings record
  - Multiple copies are needed for the following purposes:
    - Copy A—Employer sends to Social Security Administration
    - Copy B—Employee attaches to federal income tax return
    - Copy C—Employee retains for his or her own records
    - Copy D—Employer retains for business records
    - Copy 1—Employer sends to state or local tax department
    - Copy 2—Employee attaches to state, city, or local income tax return

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Transmittal of Wage and Tax Statement (Form W-3)

- Sent by employers with Copy A of Forms W-2 to the Social Security Administration
- Due by February 28 following the end of each taxable year
- Summarizes employee earnings and tax information presented on Forms W-2 for the year

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Learning Objective 4

Describe and account for workers' compensation insurance

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Workers' Compensation Insurance

- Provides insurance for employees who suffer job-related illness or injury
- Required by most states
- The employer usually pays the entire cost
  - The rate depends on the:
    - Number of employees, riskiness of the job, and company's accident history
  - The employer usually pays the premium at the beginning of the year, based on the estimated payroll for the year
    - The year-end adjustment is made when the actual payroll is known

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Workers' Compensation Insurance

EXAMPLE: Lockwood Co. expects its payroll for the year to be $210,000. Its workers' compensation insurance rate is 0.2%.

Estimated Payroll	x	Rate	=	Estimated Insurance Premium
$210,000	x	**0.002**	=	**$420.00**

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Journal Entry for Insurance Premium Payment

	DATE		DESCRIPTION	PR	DEBIT	CREDIT
1	Jan.	2	**Workers' Comp. Ins. Expense**		**420.00**	
2			**Cash**			**420.00**
3			Paid insurance premium.			
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Lockwood Co. pays the premium based on estimated payroll costs.

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Workers' Compensation Insurance

EXAMPLE: If Lockwood's actual payroll for the year is $220,000, what adjustment is needed?

Actual Payroll	x	Rate	=	Estimated Insurance Premium
$220,000	x	**0.002**	=	**$440.00**
		Premium paid		**$420.00**
		Additional premium due		**$20.00**

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Journal Entry for Insurance Premium Adjustment

	DATE		DESCRIPTION	PR	DEBIT	CREDIT
1	Dec.	31	**Workers' Comp. Ins. Expense**		**20.00**	
2			**Workers' Comp. Ins. Pay.**			**20.00**
3			Adjustment for insurance premium.			
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Workers' Compensation Insurance

EXAMPLE: What if Lockwood's actual payroll had been $205,000 instead?

Actual Payroll	x	Rate	=	Estimated Insurance Premium
$205,000	x	**0.002**	=	**$410.00**
		Premium paid		**$420.00**
		Refund due		**$(10.00)**

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Journal Entry for Insurance Premium Adjustment

	DATE		DESCRIPTION	PR	DEBIT	CREDIT
1	Dec.	31	**Insurance Refund Receivable**		**10.00**	
2			**Workers' Comp. Ins. Exp.**			**10.00**
3			Adjustment for insurance premium.			
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