**CHAPTER THREE**

**ACCOUNTING SYSTEM FOR PAYROLL AND PAYROLL TAX LIABILITY**

**Objective**

This unit aims at discussing the accounting for payroll and payroll tax liabilities. The techniques and procedures used in computing personal income tax, pension contributions, and other deductions are discussed in detail. Also, the journal entries and other records necessary in accounting for payroll will be explained and illustrated based on examples. Thus, after reading and covered this unit your will be able to:

* Understand the importance of payroll accounting
* Define payroll related terms
* Describe the components of a payroll register
* Prepare a payroll register
* Calculate income taxes, pension contribution and other deductions and net pay
* Record journal entries related to payroll and payroll taxes

**Introduction**

Accounting systems for payroll and payroll taxes are concerned with the records and reports associated with the employer-employee relationship. It is important that the accounting system provide safeguard to ensure that payments are in accord with management’s general plans and its specific authorizations.

All employees of an organization expect and are entitled to receive their remuneration at regular intervals following the close of each payroll period. Regardless of the number of employees and the difficulties in computing the amounts to be paid, the payroll system must be designed to process the necessary data quickly and assure payment of the correct amount to each employee.

The system must also provide adequate safeguards against unauthorized payments to employees and other misappropriations of funds.

Various federal, state, and local laws require employers to keep accurate payroll records and to prepare and submit to the appropriate governmental units. The law also requires employers to remit the amount withheld from its employees and for taxes imposed on it. These records must be kept for specified periods of time and be available for inspection by those responsible for enforcement of the laws. Besides, payroll data may be useful in negotiations with labor unions, in settling employee grievances, and in determining rights to vacations, sick leaves, and retirement pensions.

Here, in this unit, you are going to learn intensely and worked through the major concepts that are common to most payroll systems such as the employee’s earnings record, payroll sheet (or register), and journal entries related to payroll. Each of these concepts is illustrated and discussed by taking into account the current tax law of the country. As much as possible the unit attempts to give you adequate knowledge about payroll systems in Ethiopia. However, if you come across any confusion or difficulties you can consult the authorities in the Ministry of Finance or Inland Revenue Administration in your locality, or refer to the various proclamations especially; Proclamation No. 286/2002, the Council of Ministers Regulation No. 78/2002, and Article 33 of Proclamation No. 64/1975.

* 1. **Importance of Payroll Accounting**

Accounting for payroll is particularly important because:

1. Payroll often represents the largest expense that a company incurs.
2. Both federal and state governments require that detailed payroll records be kept, and
3. Employees are sensitive to payroll errors or irregularities. To maintain good employee morale payroll must be paid on a timely and accurate basis.
	1. **Definition of Payroll Related Terms**
4. **Salary and Wages**: Salary and Wages are usually used interchangeably. However, the term wages is more correctly used to refer to payments to unskilled-manual labor. It is usually paid based on the number of hours worked or the number of units produced. Therefore, wages are usually paid on a weekly basis or when a particular piece of work is completed.

On the other hand, salaries refer to payments to employees who render managerial, administrative, or similar services, and they are usually paid to skilled labor on a monthly or yearly basis.

In this context wages and salaries means a payment to an ‘employee’ who works primarily to an organization and whose activities are under the direct supervision of the employer. A self-employed person on the other hand, provides (gives) his/her services on a fee basis to various firms.

1. **The Pay Period**: A pay period refers to the length of time covered by each payroll payment.
2. **The pay day**: The payday is the day on which wages or salaries are paid to employees. This is usually on the last day of the pay period.
3. **A Payroll Register (sheet)**: is the list of employees of a business along with each employee’s gross earnings; deductions, and net pay (take home pay) for a particular pay period. The payroll register (sheet) is prepared based on attendance sheets, punched (clock) cards or time cards.
4. **Pay Check**: A business can pay payroll by writing a check for the net pay. A check is prepared in the name of each employee and handed to employees. Alternatively, a check for the total net pay can be prepared for employees to be paid by cash at the organization.
5. **Gross Earnings**: is the total earnings of the employees for a given pay period before deductions.
6. **Withholding Taxes**: are taxes collected from the earnings of employees by the employer organization as per the regulations of the government. These have to be remitted (paid) to the government because employer organization is only acting as an agent of the government in collecting these taxes from employees.
7. **Payroll Deductions**: are deductions from the gross earnings of an employee such as employment income taxes, employee pension contributions (withholding taxes), labor union dues, fines, credit association pays etc.
8. **Net Pay**: Net Pay is the earning of an employee after all deductions have been made. This is the take home pay amount collected by an employee on the payday.
	1. **A Payroll Register and its Components**
	2. **Employee Number**: Number assigned to employees for identification purpose when a relatively large number of employees are involved in a payroll register. It could be an identification card of the employees or a simple serial number.
	3. **Name of Employees:** this column lists names of employees of the organization.

 **c.   Earnings:** Money earned by an employee from various sources. This may include.

**(1) Basic Salary:** a flat monthly salary of an employee for carrying out the normal work of employment and subject to change when the employee is promoted.

 **(2) Allowances**: money paid monthly to an employee for special reasons, like:

* + - 1. **Position allowance** – a monthly allowance paid to an employee for bearing a particular office responsibility.
			2. **Housing allowance** – a monthly allowance given to cover housing costs of the individual employee when the employment contract requires the employer to provide housing but the employer fails to do so.
			3. **Hardship allowance/or disturbance allowance** – a sum of money given to an employee to compensate for an inconvenient circumstance caused by the employer. For example, unexpected transfer to a different and distant work area or location.
			4. **Desert allowance** – a monthly allowance given to an employee because of assignment to a relatively hot region.
			5. **Transportation (fuel) allowance** – a monthly allowance to an employee to cover cost of transportation up to his/her workplace if the employer has committed itself to provide transportation service.

 **(3) Overtime Earning**: Overtime work is the work performed by an employee beyond               the regular working hours. Overtime earnings are the amount paid to an employeeforovertime work performed.

Article 33 of proclamation No. 64/1975 discussed the following about how overtime work should be paid:

A worker shall be entitled to be paid at a rate of

1. One and one-quarter (1¼) times his ordinary (regular) hourly rate for overtime work performed before 10:00 P.M. in the evening and After 11:00 A.M in the afternoon. [11:00 Afternoon – 4:00 Evening, Local Time]
2. One and one half (1½) times his ordinary (regular) hourly rate for overtime work performed between 10:00 P.M. and Six (6:00 AM) in the morning. [4:00 Evining-12:00 Mornings, Local Time]
3. Two times the ordinary (regular) hourly rate for overtime work performed on weekly rest days.
4. Two and one half (2½) times the ordinary (regular) hourly rate for overtime work performed on a public holiday.

All in all, the gross earnings of an employee may include the basic salary, allowance and overtime earnings.

 **d. Deductions:** are subtractions made from the earnings of an employee required either by     the government or permitted by the employee himself. Some of the common types of     deductions in Ethiopia are discussed hereunder.

* 1. **Employment Income Tax**: Every citizen is required to pay employee tax to the government in almost all countries. In Ethiopia also, income tax is charged on the gross earnings of the employee at the rates indicated under Schedule A of the Proclamation No. 286/2002-Income Tax Proclamation.

The tax rates under ***Schedule A*** are presented below:

|  |  |  |
| --- | --- | --- |
| **Employment Income** **(per month)** | **Income** **Tax Rate**  |  *\* In computing and withholding tax, the income tax proclamation dictates that income attributable to the month of Nehassie and Pagumen shall be aggregated (added) and treated as the income of one month.*  |
| 0 | 150 | Exempt (Free from Tax) |
| 151 | 650 | 10% |
| 651 | 1400 | 15% |
| 1401 | 2350 | 20% |
| 2351 | 3550 | 25% |
| 3551 | 5000 | 30% |
| Over 5,000 |  | 35% |

Taxable income includes any payment or gains in cash or in kind received from employment by an individual, including income from former employment, or otherwise, from prospective employment.

 **Short cut to Income Tax Calculation**

|  |  |
| --- | --- |
| **Employment Income** **(per month)** | **Income** **Tax Payable**  |
| ***From Birr*** | ***To Birr***  |  |
| 0 | 150 | No tax (free from tax) |
| 151 | 650 | (10%XEI) – 15\* |
| 651 | 1400 | (15%XEI) – 47.5 |
| 1401 | 2350 | (20%XEI) – 117.5 |
| 2351 | 3550 | (25%XEI) – 235 |
| 3551 | 5000 | (30%XEI) – 412.5 |
| Over Br. 5000 |  | (35%XEI) – 662.5 |

**EI** = Employment Income or taxable income

 \* 15 = (150x0.1) – 0

 47.5 = [(150x.15) – 0] + [(500x0.15) – (500x0.1)] and so forth

Proclamation No. 286/2002 states that the following are not taxable.

1. Income from employment received by causal employees who are not regularly employed provided that they do not work for more than one month for the same employer in any twelve months period.
2. Pension contribution, provident fund and all forms of retirement benefits contributed by employers in an amount that doesn’t exceed 15% of the monthly salary of the employee.
3. Payments made to (an employee) as a compensation or gratitude in relation to:
	* + personal injuries suffered by that person
		+ the death of another person

**The Council of Ministers Regulation No. 78/2002**

Regulations issued pursuant to the income tax proclamation further exempt the following from income tax.

1. Amounts paid by employers to cover the actual cost of medical treatment of employees.
2. Allowance in view of means of transportation granted to employees under contract of employment, i.e., transportation allowance.
3. Hardship allowance (Disturbance allowance).
4. Amounts paid by employee in reimbursement of traveling expenses incurred on duty.
	1. **Pension Contribution**

Permanent employees of a governmental organization in Ethiopia are expected to pay or contribute 6% of their basic salary to the governments’ pension trust fund.

This amount is withheld by the employer from each employee on every payroll and later be paid to the respective government body.

The employer is also expected to contribute towards this same fund 8% of the basic salary of every permanent government employee.

Therefore, the total contribution to the pension fund of the Ethiopian government is equal to 14% of the basic salary of all of its permanent employees.

That is, 6% comes from the employees and 8% comes from the employer. For militaries, the employer (government) contributes 16% and the employee contributes 6% of his/her basic salary towards his/her pension trust fund.

This enables a permanent employee of a government organization to be entitled to the pension pay when retired provided that the employee satisfies the minimum requirements to enjoy the benefits.

Businesses and non-governmental and not-for-profit organizations (NGO’s) also have this kind of scheme to benefit their employees with some modifications. A fund known as *provident fund* is established and both the employer and the employee contribute towards this fund monthly. When an employee retires or leaves employment, a lump sum amount is paid to him/her.

* 1. **Other Deductions**

A part from the above two kinds of deductions, employees may individually authorize additional deductions such as deductions to pay life insurance premiums, to repay loan from the employer, to pay for donation to charitable organization, contributions to “***idir***” and etc.

**e. Net Pay**

Net pay represents the excess of gross earnings over total deductions of an employee.

**f. Signature**

The payroll sheet should have a column for signature of the employee to be taken when the employee collects the net pay.

* 1. **Activities Involved In Accounting For Payroll**
1. Gathering the necessary data – All the relevant information about every employee should be gathered. This requires reviewing various documents such as attendance sheets and doing some arithmetic work.
2. Entering the names of employees along with the gathered data such as earnings, deductions and net pays in the appropriate columns of the payroll register.
3. Totalling and proving the payroll register – the grand total for earnings must be checked if it is equal to the sum of the grand totals of deductions and net pays.
4. The accuracy and authenticity of the information summarized in the payroll should be verified by a different person from the one who prepared it.
5. The payroll should be approved by authorized personnel (individual)
6. Paying the payroll either in cash or by writing a check.
7. The payment of the payroll and income taxes withheld from employees (withholding tax        liability) should be recorded in journal entry form.
8. The withholding tax must be paid to the relevant government authority in time  (promptly) and this is recorded in journal entry form.
	1. **Illustration of Payroll Accounting**

Omo Nada Enterprise is a government agency recently organized around Jimma and its surroundings to rehabilitate street children. It has five employees whose salaries are paid according to the Ethiopian calendar month. The following data relates to the month of Tahisas, 2001.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| ***Serial No.*** | ***Name of Employee*** | ***Basic Salary*** | ***Transportation Allowance*** | ***Overtime worked(hr)*** | ***Duration of OT Work*** |
| 01 | Abraham Getu  | Br. 730 | 200 | 4 | 6:00-10:00 P.M |
| 02 | Bekuma Jirra  |  1020 | \_\_\_\_ | 8 | Sunday(8:30 – 5:30) |
| 03 | Meymuna Hunduma  |  5300 | \_\_\_\_ | \_\_\_\_ | \_\_\_\_ |
| 04 | Tweodros Alemayehu  |  1470 | \_\_\_\_ | \_\_\_\_ | \_\_\_\_ |
| 05 | Yetimwork Kebede  |  950 | \_\_\_\_ | 6 | Public Holiday |

**Additional Information:**

* + - The management of the enterprise usually expects a worker to work 40 hours in a week and during Tahisas there are four weeks.
		- There were no absentees during the month
		- All employees are permanent except Tewodros and Yetimwork.
		- Bekuma agreed to contribute monthly Br. 300 from his salary as a monthly saving in the credit association of the enterprise.

**Required:**

1. Prepare a payroll register (sheet) for the enterprise for the month of Tahisas, 2001.
2. Record the payment of salary as of Tahisas 30, 2001 using check stub No. 0123.
3. Record the payment of the claim of the credit association of their enterprise on Tir 1, 2001. Use check stub No. 0124.
4. Record the payment of the withholding taxes and pension contribution to the concerned government body on Tir 5, 2001.
5. Compute and recognize the total payroll tax expense for the month of Tahisas, 2001.

**Computation of Earnings, Deductions, and Net Pay**

Gross Earnings = Basic salary + Allowance + Overtime Earning

**A. Overtime Earning**

Overtime earning = OT hrs worked x (ordinary hourly rate x relevant OT rate)

* + - 1. **ABRAHAM:**
* OT Earning = 4 hours x Br. 730 x 1.25 = Br. 22.81

 160 hours

 **NB*. Every employee is expected to work 160 hours per month***

 (I.e. 40 hours x 4 weeks)

* You should compute the regular hourly rate first:

Regular Hourly Rate = Monthly salary (Basic salary)

 Total Hours worked in the Month

 = Br. 730

                                                                  160 Hours

* Therefore, the regular hourly payment = **Br. 4.56**

The regular hourly payment must be multiplied by the appropriate OT rate as follows:

 Br. (4.56 x 1.25) x 4 hours …………………… **Br. 22.81**

* + - 1. **BEKUMA:**
* OT Earning = 8 hours x Br. 1020 x 2 ………... **Br. 102.00**

 160 hours

* + - 1. **YETIMWORK:**
* OT Earning = 6 hours x Br. 950 x 2.5 …………………… **Br. 89.06**

 160 hours

**B. Gross Earnings**

Gross Earnings = Basic salary + Allowance + OT Earning

1. **ABRAHAM:**
* Gross Earnings = Br. 730 + Br. 200 + Br. 22.81 = **Br. 952.81**
* Remember taxable income in this case is Br. 752.81 because the transportation allowance of Br. 200 is not subject to taxation.
1. **BEKUMA:**
* Gross Earnings = Br. 1020 + Br. 102 = **Br. 1122**
* The Gross Total Earnings of Bekuma consists of the Br. 1020 basic salary plus the overtime earnings of Br. 102, which is Br. 1122.
1. **MEYMUNA:**
* Gross Total Earnings = **Br. 5300**, which include the basic salary alone
1. **TEWODROS:**
* Gross Total Earnings = **Br. 1470,** which is the basic salary
1. **YETIMWORK:**
* Gross Total Earnings = Br. 950 + Br. 89.06 = **Br. 1039.06**

**C. Deductions and Net Pay**

* + - 1. **ABRAHAM:**
* Gross Total Earnings …………………………………. Br. 952.81
* Gross Taxable Income (Br. 952.81 – Br. 200) ……….. 752.81

***i. Employee Income Tax:***

|  |  |  |
| --- | --- | --- |
| ***Earnings*** | ***X Income Tax Rate*** | ***= Income Tax*** |
|  0 – 150 Br. 150 | 0 |  Br. 00.00 |
|  151 – 650 on Br. 500 | 10% | 50.00 |
| 651 – 752.81 on Br. 102.81 | 15% | 15.42 |
| **Total Br. 752.81 Br. 65.42**  |

***ii. Pension Contribution:***

 Basic salary x 4%

 = Br. 730 x 0.04 …………………………………… 29.20

**⮱ Total Deduction (Br. 65.42 + Br. 29.20) ……… Br. 94.62**

**NB**. The income tax would be computed using the short-cut method as follows:

 = (Taxable Income x 15%) – Br. 47.5

 = (Br. 752.81 x 0.15) – Br. 47.5 = Br. 65.42

* + - 1. **BEKUMA:**
* Gross Total Earnings ……………………………… Br. 1122

***i. Employee Income tax:***

|  |  |  |
| --- | --- | --- |
| ***Earning*** | ***X Income Tax Rate*** | ***= Income Tax*** |
|  0 – 150 Br. 150 | 0 | Br. 00.00 |
|  151 – 650 on Br.500 | 10% |  50.00 |
|  651 – 1122 on Br. 472 | 15% |        70.80 |
| **Total Br. 1122 Br. 120.80**  |

***ii. Pension Contribution:***

 (Br. 1020 x 0.04) ………………………………………………… Br. 40.80

***iii.* *Credit Association*** ……………………………………………………… 300.00

⮚ Total Deductions ………………………………………………. **Br. 461.60**

* + - 1. **MEYMUNA:**

Gross Total Earnings……………………………………………………. Br. 5300.00

***i. Employee Income tax:***

|  |  |  |
| --- | --- | --- |
| ***Earning*** | ***X Income Tax Rate*** | ***= Income Tax*** |
| 0 – 150 Br. 150 | 0 | Br. 00.00 |
| 151 – 650 on 500 | 10% |  50.00 |
| 651 – 1400 on 750 | 15% |  112.50 |
| 1401 – 2350 on 950 | 20% | 190.00 |
| 2351 – 3550 on 1200 | 25% | 300.00 |
| 3551 –5000 on 1450 | 30% | 435.00 |
| Over 5000 on 300 | 35% |  105.00 |
| TOTAL Br. 5300.00 ----------------------------- Br. 1192.50  |
| ***ii. Pension contribution*** (Br. 5300 x 0.04) ------------ 212.00 |
| ⮚ Total Deductions ------------------------------------ **Br. 1404.50** |

* + - 1. **TEWODROS:**

Gross Total Earnings ………………………………………………… Br. 1470.00

Gross Taxable Income ………………………………………………. 1470.00

***i. Employee Income Tax:***

|  |  |  |
| --- | --- | --- |
| ***Earning*** | ***X Income Tax Rate*** | ***= Income Tax*** |
| 0 – 150 Br. 150 | 0 | Br. 00.00 |
|  151 – 650 on 500 | 10% |  50.00 |
|  651 – 1400 on 750 | 15% |  112.50 |
|  1401 – 1470 on 70 | 20% | 14.00 |
|  TOTAL Br. 1470 ----------------------------------- **Br. 176.50**  |

**NB. *No pension contribution because he is not permanent employee of the organization. Therefore, total deduction is the same as Employee Income Tax,* Br. 176.50.**

* + - 1. **YETIMWORK:**

Gross Total Earnings ……………………………………………… Br. 1039.06

***i. Employee Income Tax:***

|  |  |  |
| --- | --- | --- |
| ***Earnings*** | ***X Income Tax Rate*** | ***= Income Tax*** |
|  0 – 150 Br. 150 | 0 | Br. 00.00 |
|  151 – 650 on Br. 500 | 10% |  50.00 |
| 651 – 1039.66 on Br. 389.06 | 15% |  112.50 |
|  TOTAL Br. 1039.06 -------------------------------- **Br. 108.36**  |

**NB.** *Pension contribution should not be computed for Yetimwork because she is not permanent employee of the enterprise. Thus, the only deduction from Yetimwork’s earnings is the employee income tax.*

**NB**. It is also possible to compute income tax using the short-cut method:

 Total Income Tax = (Taxable Income x 15%) – 47.5

 = (Br. 1039.06 x 0.15) – 47.5

 = **Br. 108.30**

**NET PAY:**

Net pay = Gross Total Earnings – Total Deductions

1. **ABRAHAM:**

Net pay = Br. 952.81 – Br. (94.62)

 Net pay = Br. 858.19

1. **BEKUMA:**

Net pay = Br. 1122 – Br. (41.60)

 Net pay = Br. 660.40

1. **MEYMUNA:**

Net pay = Br. 5300 – Br. (1404.50)

 Net pay = Br. 3895.50

1. **TEWODROS:**

Net pay = Br. 1470 – Br. (176.50)

 Net pay = Br. 1293.50

1. **YETIMWORK:**

Net pay = Br. 1039.06 – Br. (108.36)

 Net pay = Br. 930.70

**Proving the Payroll:**

**Total Earnings:**

 Basic salary ----------------------------------------------- Br. 9470.00

 Allowances -------------------------------------------- 200.00

 Overtime -------------------------------------------- 213.87

 Grand Total -------------------------------------- Br. **9883.87**

**Deductions:**

 Employee Income taxes --------------------------------- Br. 1745.58

 Pension Contributions ----------------------------------- 200.00

 Other Deductions ---------------------------------------- 300.00

 Total Deductions ------------------------------- Br. **2245.58**

**Total Net Pay** ----------------------------------------------------- Br. 7638.29

**Total Deductions plus Net pay -------------------------------- Br. 9883.87**

The payroll register (or sheet) for Omo Nada Enterprise prepared for the Month of Tahisas, 2001 is shown below.

***Omo Nada Enterprise***

***Payroll Register (sheet)***

***For the Month of Tahisas, 2001 E.C.***

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Ser. No. | Name of Employee  | Earnings  | Gross Earning | Deductions  | Total Deduc. | Net Pay | Signature |
| Basic salary  | Allowances  | Over Time  | Income Tax | Pension Contr.  | Other Deduc. |
| 1 | Abraham Getu  | 730 | 200 | 22.81 | 952.81 | 65.42 | 29.2 |   | 94.62 | 858.19 |   |
| 2 | Bekuma Jirra  | 1020 | \_\_\_\_ | 102 | 1122 | 120.8 | 40.8 |   | 461.6 | 660.4 |   |
| 3 | Meymuna Hunduma | 5300 | \_\_\_\_ | \_\_\_\_ | 5300 | 1192.5 | 212 |   | 1404.5 | 3895.5 |   |
| 4 | Tweodros Alemayehu | 1470 | \_\_\_\_ | \_\_\_\_ | 1470 | 176.5 | \_\_\_\_ | \_\_\_\_ | 176.5 | 1293.5 |   |
| 5 | Yetimwork Kebede  | 950 | \_\_\_\_ | 89.06 | 1039.06 | 108.35 | \_\_\_\_ | \_\_\_\_ | 108.35 | 930.71 |   |
|  | **Grand Total** | **Br. 9470.00** | **Br. 200.00** | **Br. 213.87** | **Br. 9883.87** | **Br. 1663.07** | **Br. 282.00** | **00.00** | **Br. 2215.58** | **Br. 7638.30** |  |

Prepared by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Checked by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Approved by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Journal Entries Related to Accounting for Payroll**

***Recording the payment of salary:***

 **2001**

 **Tahisas 30**. Salary Expense ……………………… 9883.87

 Cash…………………………………… 7638.30

 Pension Contribution Payable …………… 282.00

 Employees Income Tax Payable ………… 1663.07

 Payment for Credit Association …………. 300.00

Also, on this same date, the Enterprise (as an employer) has to contribute 6% of the basic salary of every permanent employee to the government’s pension trust fund.

Therefore, total basic salaries of permanent employees x 6% = (Br. 5300 + Br. 1020+730) x 6% = Br. 423

The following journal entry, therefore, is recorded on Tahisas 30, 2001.

 **Tahisas 30.** Pension Contribution Expense ………………423.00

 Pension Contribution Payable ………………423.00

***Recording the payment of deduction from Bekuma’s salary to the Credit Association:***

 **2001**

 **Tir 5**. Payable to Credit Association ………..300.00

 Cash ……………………....…………………300.00

Recording the payment of employees’ income tax withheld and the 10% pension contribution to the government body:

 **2001**

 **Tir 5**. Pension Contribution Payable …….……705.00

 Employee Income Tax Payable ……… 1663.57

   Cash ………………………………………. 2368.57

**Review Problems**

* 1. Assume an employee’s regular hourly pay is Br. 30, with a time and a half for every hour worked in excess of 48 during a week. The following data are available:

 Hours worked during current month 204 hrs

 Regular monthly salary Br. 5760

 Allowance (transportation) Br. 700

Assume that according to Company policy transportation allowance in excess of Br. 400 is subject to employment income tax.

Based on the above data, compute the amount of the employee’s:

              i. Employment income tax,

             ii. Total deductions, assuming the employee is permanent civil servant.

iii. Net pay for the current month;

1. JIMMA RURAL DEV’T Enterprise, a government owned business, pays its employees salaries according to the Ethiopian calendar Month. The following data relate to the month of Meskerem, 2001 E.C.

|  |  |  |
| --- | --- | --- |
| ***S.No*** | ***Employee Name***  | ***Basic Salary*** |
| A01 | Alemu Tolossa  | Birr 6500 |
| M02 | Myron Zewde  | 4800 |
| Y03 | Yemisratch Fanta  | 3790 |
| Z04 | Zibrikrik Ayele  | 2565 |

**Additional Information:**

* All workers are expected to work 40 hours per week and during Meskerem there are 4 weeks. The workers have done as they have been expected.
* Myron Zewde has worked 10 hours of overtime during Meskerem: 3 hours during “Meskel” and the other 7 hours before 10 p.m.
* Yemisratch Fanta has also worked 5 hours of overtime: 2 hours during weekly rest days and 3 hours between 10 p.m. – 6 a.m.
* Alemu and Myron received a monthly position allowance of Br. 550 and Br 500 respectively which are both taxable.
* Alemu Tolossa agreed to have a monthly deduction of Br. 500 for credit association.
* All workers are permanent except Zibrikrik Ayele.

**Required:**

1. Compute the total deductions and net pay for each employee.
2. Compute (calculate) the total:
	1. withholding Taxes
	2. Payroll Taxes
	3. Record the payment of salary as of Meskerem 30, 2001.
3. Pass the entry to pay the withholding taxes to the appropriate government unit.
4. ABA JIFAR Trading Co. is a private business enterprise. The Company pays the salary of its employees according to the Ethiopian calendar month. The following data relates to the month of Hidar, 2001.

|  |  |  |
| --- | --- | --- |
| ***S.No*** | ***Name***  | ***Basic Salary*** |
| A101 | Ayselech Yihenew  | Br. 4710 |
| P102 | Genet Aychesh  | 4500 |
| S103 | Seletene Beka | 2300 |
| Z104 | Ziyad Al-Amoudi  | 7500 |

**Additional Information:**

* The organization expects every worker to work 48 hours in a week and during Hidar there are four weeks and all workers have done as they have been expected.
* Ato, Ayselecth and W/r, Genet are entitled to get a monthly allowance of Birr 600 and Br. 500 respectively.
* All workers are permanent except Ziyad Al-Amoudi, and they are entitled to a total of 15% provident fund of which 10% from the employer and 5% from the employee.
* Ato Seletene Beka and W/t Genet Aychesh have worked 10 hours of overtime both on public holidays.
* According to the Company rule, any allowance more than Birr 300 is subject to income tax.

**Required:**

Compute the income tax for each employee.

Compute the total deductions for each employee.

Determine the net pay (take-home-pay) for each employee.

Compute the total withholding tax for the month.

Compute the total payroll tax expense.

Pass the journal entry to record the payment of salary as of Hidar 30, 2001.

1. The following data relates to the payroll of the employees of a privately owned business organization known as “AL-AZAR Retail Enterprise”, for the month of Miazia, 2001 E.C.

|  |  |  |  |
| --- | --- | --- | --- |
| ***Serial******No.***  | ***Name***  | ***Basic Salary*** | ***Overtime Worked*** |
| ***Hours***  | ***Duration***  |
| 01 | Aleme T.  | Br. 4300 | 4 | Up to 10 PM |
| 02 | Banchayehu S.  | 2960 | 12 | b/n 10PM to 6 PM |
| 03 | Chemdessa N.  | 2450 | 8 | Weekly rest days  |
| 04 | Deniel T.  | 1632 | 10 | Public holidays  |
| 05 | Leilena A.  | 3000 | - | - |

**Additional Information:**

* The management of the business organization usually expects a worker to work 48 hours in a week.
* There were no absentees during Miazia.

**Required:**

Prepare a payroll sheet for the month of Miazia

Record the payment of salary as of Ginbot 1, 2001

Record the recognition of the payroll tax expense as of Ginbot 1, 2001

Record the payment of withholding taxes to the proper government units as of Ginbot 15, 2001