

O Level Principles of Accounts (7110)

Unit 9: Payroll Accounting

Recommended Prior Knowledge

Students should have a good understanding of financial statements before starting this unit. They will also find it helpful to have excellent double entry skills and good understanding of cash books and the typical adjustments which feature in financial statements.

Context

At this stage of their studies, students should be able to prepare financial statements of a variety of organisations beginning with a trial balance. This unit deals with a major expense found in the income statement of businesses and an accrual in the balance sheet. It also looks at the mechanics of payroll.

Outline

Payroll is important for virtually all organisations which employ workers. Students will need to calculate amounts and reconstruct accounts and other statements to prepare relevant information to include in financial statements.

AO	Learning outcomes	Suggested Teaching activities	Learning resources
1.1	<p>Candidates should be able to:</p> <ul style="list-style-type: none"> name and state the use of a clock card, time sheet, payslip, payroll register, wages sheet 	<p>Examples of payroll documentation will be available in school/college and students may be able to obtain examples from their parents (although payslips may be regarded as confidential)</p>	http://www.osbornebooks.co.uk/pdf/resources_accounting.pdf
	<ul style="list-style-type: none"> explain and calculate pay using the time basis and piecework basis 	<p>Examples of documents are also available online and may be useful to help explain terminology and as a basis for making calculations.</p> <p>It may be useful to give examples of when piecework might be used (say, when a basic product needs to be produced in bulk and quickly) when the employees can be paid for each unit paid and compare this with payment for each hour the employee is at work.</p>	http://www.direct.gov.uk/en/Employment/Employees/Pay/DG_10027228
	<ul style="list-style-type: none"> explain and calculate overtime explain statutory deductions for 	<p>Students may compare wages and salaries and deductions in the local economy as compared with the position in the UK.</p>	<p>Past question papers available from CIE, e.g.</p>

AO	Learning outcomes	Suggested Teaching activities	Learning resources
	<p>income tax and social security/national insurance</p> <ul style="list-style-type: none">explain voluntary deductions for pension contributions, subscriptions and charitable deductions		Specimen Paper 1 Q25
5.1	<p>Candidates should be able to:</p> <ul style="list-style-type: none">explain and calculate gross and net pay <p>Understanding of tax and other tables is not required. Calculations will be based on fractions and percentages.</p> <p>Knowledge of bonus schemes is not required</p>	<p>A typical calculation, with overtime at time and a half and tax at 10% and social security at 5%, is:</p> <p>Basic pay 35 hours @ \$6 = \$210.00 Overtime 5 hours @ \$9 = <u>\$ 45.00</u> Gross pay \$255.00 Tax at 10% \$ 25.50 Social security <u>\$ 12.75</u> Net pay \$216.75</p>	<p>http://www.direct.gov.uk/en/Employment/Employees/Pay/DG_10027228</p>
	<p>Candidates should be able to:</p> <ul style="list-style-type: none">prepare journal entries to record the payment of wages and salaries, statutory and voluntary deductionsprepare ledger entries to record the payment of wages and salaries, statutory and voluntary deductions <p>Questions will not be asked on the use of a wages and salaries control account or labour costing</p>	<p>Students should practice calculating net wages and salaries and record the totals in relevant accounts, also showing the transfers in the journal.</p> <p>An important aspect to remember is that part of National Insurance/Social Security is paid by the employee and part by the employer. So, the business wages and salaries total for a period for one employee is, with example figures:</p> <p>Basic wage plus overtime \$300 Plus Employer's share of National Insurance/Social Security <u>\$50</u> Profit and loss expense \$350</p> <p>The employee receives: Basic wage plus overtime \$300 Less</p>	<p>Past question papers available from CIE, e.g.</p> <p>Specimen Paper 2 Q3</p>

AO	Learning outcomes	Suggested Teaching activities	Learning resources
		<p>Tax and Employee's share of National Insurance/Social Security (\$25)</p> <p>Less</p> <p>Voluntary Contributions <u>(\$10)</u></p> <p>\$265</p> <p>Amount payable to tax authorities (accrual in balance sheet) would be $\\$50 + \\$25 = \\$75$</p> <p>Amount payable for voluntary contributions (pensions, subscriptions to trade union, club, etc) would be \$10</p>	