



Payroll Accounting

Understanding payroll will help you as an employee or an employer. It explains all the deductions that are removed from your paycheque, where the numbers on your T4 (income statement for taxes) come from, and the additional costs an employer must pay on behalf of its employees other than salaries and wages.

A basic paycheque will show gross pay, deductions and net pay:

GROSS PAY	Total amount earned by employee
-DEDUCTIONS	Includes statutory deductions [federal tax, provincial tax, Employment Insurance (EI), and Canadian Pension Plan (CPP)] and voluntary deductions [union dues, charities, extended health benefits, group RRSP, etc.]
NET PAY	Amount received by employee after deductions

Statutory deductions are mandatory amounts that employers are required to subtract from an employee's gross pay and remit to Canada Revenue Agency.

Voluntary deductions are amounts that employees must give permission for employers to subtract from their gross pay and remit to necessary parties. For instance, if you volunteered to contribute part of your paycheque to a group RRSP, the employer would deduct that amount from your gross pay and send it to the RRSP provider on your behalf.

Total deductions = statutory deductions + voluntary deductions

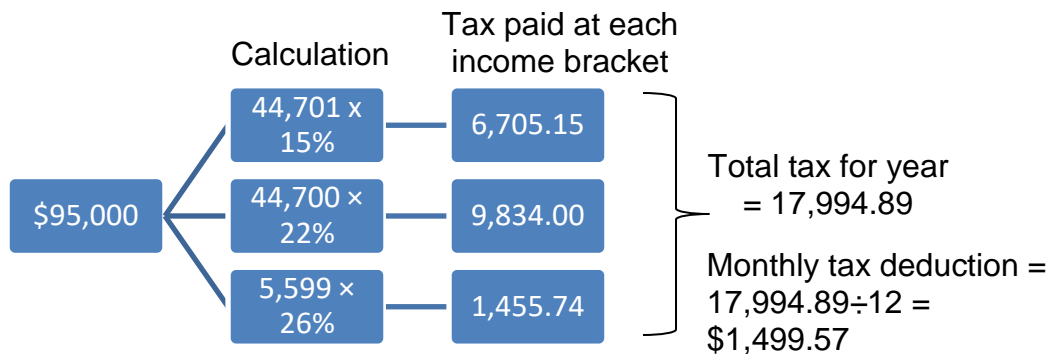
In addition to the total deductions, employers must pay an additional amount to CPP and EI, along with any other negotiated benefits (for example, a 1.5% matching of RRSP contributions). The **remittance to CRA** is the sum of the total deductions and the additional amounts the employer is responsible for paying.

CALCULATIONS

(1) **Taxes.** Progressive income tax brackets are set up for both federal and provincial taxes. Use the different tax rates at different levels of income to find the tax amount for each income bracket and then add them to find the total yearly tax. (Remember business math?) Divide by 12 if asked to record monthly tax amounts.

Example 1: For an annual gross income of \$95,000 find the federal income tax deducted each month. Use 2015 tax rates shown on page 3.





(2) **CPP.** To find the monthly CPP amount there are two steps:

- Find the monthly gross pay and deduct \$291.66 (the basic CPP exemption of \$3,500 divided by 12)
- Take this value (the pensionable amount per month) and multiply by 4.95% to find the employee contribution per month.
- The employer contribution is the same as in b.

BUT! The maximum amount of employee CPP contribution and employer CPP contribution for 2015 is \$2,479.95 each per year. To figure out how many months you will have to contribute to CPP, take the limit and divide by the employee contribution amount in part b.

Example 2: For an annual income of 95,000, calculate the CPP employee contribution per month and how many months CPP will be deducted from the pay check.

- Gross monthly pay = $95,000 \div 12 = 7,916.67$
 $7,916.67 - 291.66 = 7,625.01$
- $7,625.01 \times 0.0495 = 377.44$ (pensionable amount) — employee/employer pays same amount
- $2,479.95 \div 377.44 = 6.57$ times (or in 6.57 months)
So for the first 6 months, \$377.44 will be deducted from the paycheque. A smaller amount will be deducted in the 7th month:
 $2,479.95 - (377.44 \times 6) = \215.31

*note your answers may vary slightly based on rounding. Generally use the pensionable amount rounded to two decimal places when doing calculation c.

(3) **EI.** To find the monthly EI amount there are two steps:

- Take the monthly gross pay and multiply by 1.88% to find the monthly EI employee deduction.
- Take the amount in part a and multiply by 140% to find the monthly employer contribution

BUT! Just like CPP, there is a maximum amount the government lets you or your employer contribute each year. **The maximum employee EI amount for 2015 is \$930.64; the maximum employer amount is \$1,302.90.** Use the same steps shown in part c of Example 2 to figure out how many months EI will be deducted from an employee's paycheck.



Example 3: For a 95,000 annual income, calculate the EI employee monthly premium (contribution) per month and the employer's monthly premium.

- a) $95,000 \times 0.0188 = 1,786.00$ employee premium
- b) $1,786 \times 1.4 = 2,500.40$ employer premium

PREPARING JOURNAL ENTRIES FOR PAYROLL

Journal entries for payroll have two basic parts. The first set of entries is for the expense of employees' salaries/wages and the employee deductions (both statutory and mandatory), which are recorded as payroll liabilities (each deduction is listed separately). The wages (net pay) to be paid are recorded as cash or salaries payable. The second set of entries is for the additional contributions an employer must make on behalf of its employees. See the example entries below. Note that the credit entries for paying employees must add up to the gross pay (debit entry).

Paying Employees		Additional Employer Contributions	
Salaries/Wages Expense	6000	Employer's benefit expense	604.48
(Gross Pay)		EI payable	157.92
EI payable	112.80	CPP payable	282.56
CPP payable	282.56	MSP payable*	54.00
Federal tax payable	1066.00	Medical/dental payable*	50.00
Provincial tax payable	379.35	RRSP payable*	60.00
Union dues	12.00		
RRSP contributions	60.00		
Cash or Salaries/Wages payable (net pay)	4087.29		

*Anything other than EI and CPP in the additional employer contributions journal entries would be part of a negotiated job benefits—if your employer stipulates that they will pay basic MSP costs, extended health benefits, or into a group RRSP—these would show up as additional entries.

Federal income tax rates for 2015

- 15% on the first \$44,701 of taxable income,
- + 22% on the next \$44,700 of taxable income
- + 26% on the next \$49,185 of taxable income
- + 29% of taxable income over \$138,565

British Columbia income tax rates for 2015

- 5.06% on the first \$37,869 of taxable income,
- + 7.7% on the next \$37,871,
- + 10.5% on the next \$11,218,
- + 12.29% on the next \$18,634,
- + 14.7% on the next \$45,458
- + 16.8% on the amount over \$151,050



Practice Problems

Use 2015 tax rates from page 3 for all problems below.

1. Maritzia earns a gross monthly salary of \$3,700. She contributes 1% of her gross salary to a group RRSP and her employer matches the contribution at 1.5% of her salary. The company pays her MSP coverage at \$54 a month. Show the accrual journal entries for the payroll on June 30, 2015.

2. One of your employees receives an annual salary of \$83,500. The only deductions from his paycheque are federal and BC tax, CPP, and EI.

(a) In what months will the CPP deduction be zero?

(b) In what months will the EI employee deduction be zero?

(c) What is the amount of EI employer deduction in August?

3. Francoise is an executive chef at Le Tableau Bleu. Her gross income is \$74,892 a year. She is paid monthly. Prepare a payroll schedule for her payments in 2015 by completing the following table. (Use the 2015 tax rates provided on the previous page).

Month	Gross Pay	EI employee	EI employer	CPP employee	CPP employer	Fed Tax	BC Tax	Total deductions	Net Pay	Total remittance
Jan										
Feb										
Mar										
Apr										
May										
Jun										
Jul										
Aug										
Sep										
Oct										
Nov										
Dec										
Total										



Answers

1.

June 30		
Salaries Expense	3,700	
EI payable		69.56
CPP payable		168.71
Federal income tax payable		555.00
Provincial income tax payable		201.59
Group RRSP payable		37.00
Salaries payable		2,668.14

June 30		
Employer's Benefit Expenses	375.59	
EI payable		97.38
CPP payable		168.71
Group RRSP payable		55.50
MSP coverage		54.00

2. (a) CPP deduction will be \$330/month, the limit of $\$2479.95/330 = 7.5$ times, which means the full amount is paid Jan-July, and \$169.95 is paid in August. There are no CPP payments **Sep-Dec** (b) EI deduction will be \$130.82/month. $\$930.64 \div 130.82 = 7.11$ which means the full amount is paid Jan-July, and a small portion is paid in August. There are no payments **Sep-Dec** (c) **\$20.85** The employer deduction is $\$103.82 \times 1.4 = \183.15 . $\$1302.90 - (183.15 \times 7) = \20.85 .

3.Month	Gross Pay	EI employee	EI employer	CPP employee	CPP employer	Fed Tax	BC Tax	Total deductions	Net Pay	Total remittance
Jan	6,241.00	117.33	164.26	294.49	294.49	1,112.26	397.25	1,921.33	4,319.67	2,380.09
Feb	6,241.00	117.33	164.26	294.49	294.49	1,112.26	397.25	1,921.33	4,319.67	2,380.09
Mar	6,241.00	117.33	164.26	294.49	294.49	1,112.26	397.25	1,921.33	4,319.67	2,380.09
Apr	6,241.00	117.33	164.26	294.49	294.49	1,112.26	397.25	1,921.33	4,319.67	2,380.09
May	6,241.00	117.33	164.26	294.49	294.49	1,112.26	397.25	1,921.33	4,319.67	2,380.09
Jun	6,241.00	117.33	164.26	294.49	294.49	1,112.26	397.25	1,921.33	4,319.67	2,380.09
Jul	6,241.00	117.33	164.26	294.49	294.49	1,112.26	397.25	1,921.33	4,319.67	2,380.09
Aug	6,241.00	69.80	97.73	294.49	294.49	1,112.26	397.25	1,873.81	4,367.19	2,266.03
Sep	6,241.00			0.26	0.26	1,112.26	397.25	1,509.77	4,731.23	1,510.03
Oct	6,241.00					1,112.26	397.25	1,509.51	4,731.49	1,509.51
Nov	6,241.00					1,112.26	397.25	1,509.51	4,731.49	1,509.51
Dec	6,241.00					1,112.26	397.25	1,509.51	4,731.49	1,509.51
Total	74,892.00	891.12	1,247.57	2,356.20	2,356.20	13,347.17	4,766.94	21,361.43	53,530.57	24,965.20

