# **ACCT 1130**

# **CHAPTER 2 --- COMPUTING & PAYING WAGES & SALARIES**

The Fair Labor Standards Act (FLSA), commonly known as the Federal Wage and Hour Law, contains provisions and standards concerning minimum wages, equal pay for equal work regardless of sex, overtime pay, recordkeeping, and child labor. The Wage and Hour Division of the US Department of Labor administers the act.

The FSLA provides for 2 bases of coverage—enterprise coverage & individual employee coverage.

Enterprise coverage includes all employees of an enterprise if at least 2 employees engage in interstate commerce or produce goods for interstate commerce and the business has annual gross sales of at least $500,000.

Cover extends, without regard to annual sales volume, to those who operate hospitals, nursing homes, institutions for the mentally ill, school for mentally or physically handicapped or gifted children, preschools, elementary, or secondary schools, institutions of higher education, and public agencies.

The enterprise coverage does not apply to family establishments, often referred to as “mom and pop stores” in which the only regular employees of an establishment include the owner, parent, spouse, child, or other immediate family members.

Individual employee coverage—the FLSA covers a worker if the employee either engages in interstate commerce or produces goods for such commerce. Coverage also includes employment in a fringe occupation closely related & directly essential to the production of goods for interstate commerce. (Coverage depends on the *activities of the individual employee* and not on the *work of fellow employees*, the nature of the employer’s business, or the character of the industry as a whole.)

Who is an employee? Managers, superintendents, supervisors, department heads, and all other executives are considered to be employees. Directors of corporations who only attend and participate in board meetings are not employees. Partners generally are not employees of the partnership.

Domestic workers also must be paid minimum wage if:

1. they perform services in one or more homes for a total of more than 8 hours in any workweek, or if
2. they earn wages of at least $1,000 in any calendar year

Wages usually refer to amounts paid on hourly, weekly, or piecework basis.

Salary usually refers to amounts paid on a monthly, biweekly (every 2 weeks), semimonthly (twice a month), or yearly basis.

The Fair Minimum Wage Act of 2007 increased the minimum wage to $7.25 beginning July 24, 2009. FLSA also provides overtime pay for hours worked over 40 in a week. Employers may pay $4.25 an hour to a newly hired employee under 20 years old for the first 90 days—this is referred to as a training or opportunity wage.

Retail or service establishments & farms may employ full-time students at 85% of the minimum wage ($6.17). Institutions of higher education may employ their own full-time students at 85% of the minimum wage ($6.17). Student-learners may be employed at 75% of the minimum wage if they are participating in a bona fide vocational training program conducted by an accredited school ($5.44). Special minimum wage rates may apply to persons whose earning capacity is impaired by age, physical, mental deficiency, or injury. A certificate authorizing employment at such rates must first be obtained.

Included in regular rate of pay is: commissions, bonuses, severance pay, on call pay, shift or weekend differential, fair market value of lodging or other facilities ordinarily furnished to the employee. Discretionary bonuses, which are bonuses not agreed upon, announced, or promised before payment, is *not* included in an employee’s regular rate of pay.

Living wages ordinances have been enacted by over 100 cities to require employers who do business with the government to pay a living wage to their low wage earners. In Miami, all city workers and workers for companies that have contracts (over $100,000) with the city must be paid $12.63 per hour (with health insurance coverage) or $14.46 per hour without coverage. In Santa Fe, New Mexico, the living wage rate is set at $10.91 per hour with the value of any employer-provided health benefits credited against this minimum.

## Tipped Employees

A tipped employee is one who engages in an occupation in which tips of more than $30 a month are customarily & regular received. Employers must pay tipped employees $2.13 per hour. Tips received by employee are credited towards the remaining $5.12 of the total $7.25. If tips received do not amount to at least $5.12 per hour, the employer must increase the hourly rate of pay so that the two together equal $7.25.

In other words, employees working 40 hours a week should be paid $290 (40 \* 7.25). So if the $2.13/hour plus the tips doesn’t equal $290, the employer must pay more.

The same tip credit also applies to overtime hours. The regular rate of pay for a tipped employee is the current minimum wage $2.13 plus $5.12 tip credit (above)-$7.25. Time and one-half of $7.25 is $10.88. Since the employer can use the same tip credit for overtime hours, the employee’s overtime cash wages are $5.76/hour ($10.88-5.12)

The FLSA requires overtime pay for all hours worked in excess of 40 in a workweek.

The FLSA does not require overtime pay for daily hours worked in excess of any given number or for work on Saturdays, Sundays, or holidays, or other special days.

The FLSA does require overtime pay to be 1 ½ times the employee’s regular hourly rate of pay, which must not be less than the statutory minimum.

The Equal Pay Act requires that men and women performing equal work receive equal pay. However, wage differentials between sexes are allowable if based on a seniority system, merit system, a payment plan that measures earnings by quantity or quality of production, or any factor other than sex.

## White-Collar Workers

The FLSA exempts some workers, such as executives, administrators, professional employees, and outside salespersons from the minimum wage and overtime pay provisions if they satisfy certain tests. Refer to Figure 2.1 for examples of exempt job descriptions and Figure 2.2 for indications for exempt status as well as test of exemption.

These white-collar employees must be paid their full salary in any week in which any work is performed without regard to the number of hours worked. However, deductions can be made from the salary if an exempt employee misses one or more full days of work for personal reasons, other than sickness of accident. If the employee does not qualify for the employer’s sick pay plan or has used up all available sick time, deductions can also be made for these full-day absences. A proportionate share of an exempt employee’s salary for the time actually worked is allowed only for the employee’s first or last week of employment. Partial-day absences cannot be deducted from the exempt employee’s salary. However, the Wage and Hour Division has stated that the employer can require the employee to use any accumulated leave time to offset the time absent. Employers may also require exempt employees to record and track hours worked and to work a specified schedule.

## Child Labor

Under the FLSA, the Secretary of Labor issues regulations that restrict the employment of individuals *under the age of 18*.

## Determining Employee’s Work Time

Generally, the hours counted as working time include all the time that employees actually work or must be on duty.

The FLSA does not require that an employer give employees a rest period or a coffee break. *If* the employer grants such rest periods voluntarily, the time spent on a rest period 20 minutes or fewer counts as part of the hours worked.

Bona fide meal periods (not including coffee breaks or snack times) during which the employee is *completely relieved* from duty are not considered working time.

The FLSA does not require an employer to pay an employee for hours not worked because of illness. For employees on an hourly wage basis, the time card shows the exact hours worked; and the time off does notcount toward the 40 hours of overtime pay purposes even if the employee is paid for the absences.

The FLSA requires that employees be paid for all time worked, including fractional parts of an hour. Employers using time clocks may round starting and stopping times of their employees to the nearest five minutes, or to the near six minutes (tenth of an hour) or 15 minutes (quarter of an hour.) Whichever method chosen--these rules must be administered fairly and consistently.

The FLSA requires employers subject to the law to keep certain time & pay records, such as the hours each employee worked each workday & each workweek. How the employer chooses the methods of keeping time records depends on the size of the company & whether employees are paid on an hourly, weekly, semimonthly, or monthly basis.

Various records used for timekeeping (time sheet, time cards, computerized time and attendance recording systems, touch screens, biometrics, and etcetera) provide the information required by law & the data used to compute the payroll.

## Methods of Computing Wages & Salaries

The employee’s regular rate of pay includes all payments given for working a particular job. This does not include discretionary bonuses, gifts on special occasions, and contributions to certain welfare plans.

Time Rate: Multiply the total regular hours worked by the regular hourly rate.

Calculating Overtime Pay: One of two methods can be used, both of which will result in the same total gross pay. The most common method is shown below.

Multiply the total regular hours worked by the regular hourly rate.

Multiply the total overtime hours by the overtime rate which is 1.5 times the regular rate. Immediately round the overtime rate to 2 places

Add the total regular earnings & the total overtime earnings to obtain gross earnings

Total Regular Hours X Regular Hourly Rate=Regular earnings

Total Overtime Hours X Overtime Rate=Overtime earnings (round OT rate to 2 places)

Regular Earnings + Overtime Earnings = Gross Earnings

The other method for calculating overtime pay is the overtime premium approach. In this case, the total hours worked (including overtime hours) are multiplied by the regular rate of pay. Then the overtime premium pay is calculated by multiplying the overtime hours by an overtime premium rate of one-half the regular hourly rate.

Total hours X Regular Hourly Rate

OT hours X ½ regular hourly rate (rounded to 2 places)

Add to derive the total gross pay.

In cases where an employee works at different rates for different jobs (for the same employer; for example performing plumbing work at one rate and welding work at another rate), the employer can, at their option, calculate the overtime in **one of three ways** (1) one could pay at the higher rate for the overtime hours, (2) one could calculate it by taking the total earnings for both jobs (each job’s hours \* each job’s rate—then add the two together), dividing those total earnings by the **total hours** worked, then taking ½ of this rate and multiplying by the overtime hours, (3) one could use an overtime rate based on the rate for the job performed after the 40th hour (the employer must have agreed to this in advance).

**Please note:** Use method (2) for homework problem 2-12, part a (one-half average rate method). Refer to Example 2-11 of method (2). Use method (3) for homework problem 2-12, part b.

## Converting Weekly Wages Rates to Hourly Rates:

Divide the weekly rate by the number of hours in the regular workweek (not necessarily 40)

Weekly rate/Number of Hours in regular workweek (not necessarily 40)

## Converting Biweekly Wages Rates to Hourly Rates: (paid every 2 weeks)

Divide the biweekly earnings by 2 to arrive at the weekly rate and divide the weekly rate by the standard number of hours in the regular workweek (not necessarily 40)

Remember: Biweekly employees are paid every 2 weeks.

Biweekly earnings/2 = Weekly earnings

Weekly earnings/# of hours in workweek = Regular Hourly Rate (round to 2 places)

Regular Hourly Rate X 1.5 = Overtime rate(round to 2 places)

## Converting Monthly Salary Rates to Hourly Rates:

Convert the monthly salary rate to an hourly rate by annualizing the monthly salary, and then divide the annual salary by 52 weeks.

Monthly Salary X 12 months =Annual Salary

Annual Salary/52 weeks = Weekly Salary

Weekly Salary/# of hours in workweek (not necessarily 40) = Hourly Rate (round to 2 places)

Hourly Rate X 1.5 = Overtime Rate (round to 2 places)

## Converting Semimonthly Salary Rates to Hourly Rates: (Paid 2 times per month)

Computed the same as monthly earnings except semimonthly earnings are multiplied by 24 instead of 12 to annualize the earnings.

Semimonthly Salary X 24 pay periods = Annual Salary

Annual Salary/52 weeks = weekly Salary

Weekly Salary/Number of hours in workweek (not necessarily 40) = Hourly Rate (round to 2 places)

Hourly Rate X 1.5 = Overtime Rate (round to 2 places)

## Salary Nonexempt Employees:

In order to cut administrative costs, salaries can be paid to nonexempt employees, however, these employees are still subject to FLSA’s overtime rules. The employee’s regular rate of pay is found by dividing the number of hours expected to be worked each week into the weekly salary. The employee is then entitled to be paid at the regular rate of pay for the first 40 hours and at one and one-half times the regular rate of pay for the hours over 40.

## Salary with fluctuating hours:

Employers may pay employees who work fluctuating schedules a fixed salary, regardless of the number of hours worked. However, there must be an understanding with the employee prior to the workweek that this pay calculation method will be used. In such cases, overtime pay is found by dividing the normal salary by the total hours worked. An extra half rate is then paid for all hours over 40. Use this method for homework problem and test problems that have salaried employees with fluctuating hours.

Salary/Total hours = Hourly Rate (round to 2 places)

Hourly rate X .5 = Overtime Rate (round to 2 places)

Overtime Hours X Overtime Rate = Overtime Pay

Salary plus overtime pay = Total Earnings

An alternative method of calculating the overtime is to use the fixed salary divided by 40 hours (instead of total hours) to determine the regular rate of pay. This way, the overtime premium will be the same no matter how many hours are worked. This method eliminates the need to recalculate the regular rate of pay each week as the number of hours worked changes. Use the FIRST method above on homework problems and test problems, not this alternative method.

## Piece-Rate System

The employer pays workers according to their output under a piece-rate system.

Multiply the total units or pieces produced X the rate paid per unit

Multiply the total incentive units or pieces X the bonus rate paid per unit

Add the above together to =Total weekly earnings

Total Weekly Earnings/Total Hours Worked = Rate per hour

Method A: for overtime work the pieceworker is paid a sum equal to one-half the regular hourly rate of pay multiplied by the number of hours worked in excess of 40 in the week.

1. Compute the total regular weekly earnings (Pieces X Piece rate)

2. Compute the regular hourly rate of pay (Regular Earnings/ total hours worked)

3. Compute the overtime rate of pay (Regular hourly rate of pay X .5)

4. Compute the overtime earnings (Overtime rate of pay X overtime hours)

5. Compute total earnings (Regular weekly earnings + overtime earnings)

Method B: before doing the work, piece-rate employees may agree to be paid at a rate not less than 1 ½ times the piece rate for overtime hours.

1. Multiply the regular units produced X the regular piece rate = piecework earnings.

2. Multiply the overtime units produced X (the regular piece rate X 1.5) round to 2 places

3. Add the piecework earnings + the overtime earnings

Commissions are stated percentages of revenue paid an employee who transacts a piece of business or performs a service. Commissions are considered to be payments for hours worked & must be included in determining the regular hourly rate.