

# CHAPTER 11

**Activity:** Individual

⌚ 30 MINUTES

**Materials:** Activity handout

**Objective:** The purpose of this activity is for students to interpret the information found on a pay stub. Students will also investigate what employers do with money deducted from employee paychecks.

**STANDARD Financial Analysis Standard:** Understands tools, strategies and systems used to maintain, monitor, control and plan the use of financial resources.

# Reading a Pay Stub <sup>(1/2)</sup>

## Procedure

- ➊ Review these terms with your students:
  - **Pay period:** Set length of time (typically weekly, bi-weekly, or monthly) over which employee time is recorded and paid
  - **Gross pay:** The amount people earn per pay period before any deductions or taxes are taken out.
  - **Net pay:** Gross pay minus deductions and taxes
  - **Payroll deduction:** The amounts subtracted from gross pay, which results in your net pay
  - **Pension:** A sum of money paid regularly as a retirement benefit
  - **401(k):** A retirement savings plan to which contributions are made by the employee and employer and are invested; it is tax-deferred
  - **FICA (Federal Insurance Contributions Act):** A payroll tax used to fund Social Security and Medicare
- ➋ Have students reference the information found on the sample pay stub and have them answer the following questions:
  - ➊ What is the employee's gross pay? *\$1,200.00*
  - ➋ How much local tax is deducted from the paycheck? *\$23.13*
  - ➌ How much state tax is deducted from the paycheck? *\$40.06*
  - ➍ How much federal tax is deducted from the paycheck? *\$157.39*
  - ➎ How much did the employee contribute to FICA? *\$71.69*
  - ➏ How much did the employee contribute to Medicare? *\$16.77*
  - ➐ How much did the employee pay for the other deductions? *\$91.75 (total adjustments)*
  - ➑ What was the purpose of the other deductions? *Health insurance and 401(k)*
  - ➒ What is the employee's net pay? *\$809.21*
  - ➓ What percent of the employee's paycheck is deducted for taxes and other expenses? *33%*

# Reading a Pay Stub (2/2)

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- 3 Have students access the Internal Revenue Service's website at: <http://www.irs.gov/publications/p15/ar02.html#d02.html#d0e1690> (a link to this site can be found on foundationsU.com). Explain to students that this page consists of guidelines for what employers do with the money deducted from their employees' paychecks. Using the menu on the website, students will answer the following questions (Note: Words in bold type are intended to guide students' search.).
  - How must an employer report his/her employees' tips to the IRS? *Answer: Report tips and any collected and uncollected Social Security and Medicare taxes on Form W-2 and on form 941, lines 5b, 5c, and 5d (form 944, lines 4b, and 4c).*
  - What is an Employer Identification Number (EIN)? *Answer: If you are required to report employment taxes or give tax statements to employees, you need an EIN. The EIN is a nine-digit number issued by the IRS.*
  - How should an employer go about withholding tax when he/she has no regular payroll period? *Answer: Employers should withhold the tax as if you paid wages for a daily or miscellaneous payroll period.*
- 4 Divide students into groups and help them use an online presentation tool to develop a presentation explaining the parts of a pay stub.
- 5 Select the best presentation and share it with other students. You may want to use the winning presentation to review the components of a pay stub prior to the course final exam.

# Reading a Pay Stub (1/3)

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## Directions

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1 Review these terms before completing this activity:

- **Pay period:** Set length of time (typically weekly, bi-weekly, or monthly) over which employee time is recorded and paid
- **Gross pay:** The amount people earn per pay period before any deductions or taxes are taken out
- **Net pay:** Gross pay minus deductions and taxes
- **Payroll deduction:** The amounts subtracted from gross pay, which result in your net pay
- **Pension:** A sum of money paid regularly as a retirement benefit
- **401(k):** A retirement savings plan to which contributions are made by the employee and employer and are invested; it is tax-deferred
- **FICA (Federal Insurance Contributions Act):** A payroll tax used to fund Social Security and Medicare

2 Reference the information found on the sample pay stub and answer the following questions:

A What is the employee's gross pay?

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B How much local tax is deducted from the paycheck?

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C How much state tax is deducted from the paycheck?

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D How much federal tax is deducted from the paycheck?

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E How much did the employee contribute to FICA?

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F How much did the employee contribute to Medicare?

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G How much did the employee pay for the other deductions?

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H What was the purpose of the other deductions?

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# Reading a Pay Stub <sup>(2/3)</sup>

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**I** What is the employee's net pay?

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**J** What percent of the employee's paycheck is deducted for taxes and other expenses?

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**3** Access the Internal Revenue Service's website at: <http://www.irs.gov/publications/p15/ar02.html#d02.html#d0e1690> (a link to this site can be found on foundationsU.com). This page consists of guidelines for what employers do with the money deducted from their employees' paychecks. Using the menu on the website, answer the following questions (Note: Words in bold type are intended to guide your search.).

**A** How must an employer report his/her employees' tips to the IRS?

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**B** What is an Employer Identification Number (EIN)?

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**C** How should an employer go about withholding tax when he/she has no regular payroll period?

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**4** You will be divided into groups. Using an online presentation tool, develop a presentation explaining the parts of a pay stub.

**5** The best presentation will be selected and shared with others.

# Reading a Pay Stub (3/3)

## Sample pay stub

EXAMPLE COMPANY, INC.  
555 MAIN ST.  
ANYCITY, TN 12345

1756-000200

56-9999  
9999

07/25/2013

25

DATE

CHECK NO.

PAY TO THE  
ORDER OF

JOHN DOE  
123 LAMPO DRIVE  
ANYCITY, TN 12345

\*\*VOID\*\*

AMOUNT

\*\*VOID\*\*THIS IS NOT A CHECK\*\*

\*\*VOID\*\*THIS IS NOT A CHECK\*\*

SAMPLE BANK  
ANYCITY, TN

DEPOSIT ACCOUNT  
3395

DEPOSIT AMOUNT  
\*\*\*\*\*\$809.21

\*\* Non Negotiable \*\*

AUTHORIZED SIGNATURE

FOLD AND REMOVE

FOLD AND REMOVE

YOUR BANKING

ITEM	AMOUNT	DEPOSIT TO ACCT #
NET	664.21	3395

EMPLOYER INFORMATION

EXAMPLE COMPANY, INC.  
555 MAIN ST.  
ANYCITY, TN 12345

PAY PERIOD 06/19/13 TO 07/02/13

CHECK DATE 07/23/13

CHECK # 25

PERSONAL INFORMATION

JOHN DOE  
123 LAMPO DRIVE  
ANYCITY, TN 12345

SS# XXX-XX-0407

EMPL# 000004

DEPT# 000200

IMPORTANT MESSAGE:

OPEN ENROLLMENT BEGINS NEXT WEEK.

EARNINGS

HOURS	RATE	AMOUNT	YTD AMOUNT
HOLIDAY	8.00	15.000	120.00
VACATION	8.00	15.000	120.00
REGULAR	64.00	15.000	960.00

TOTAL EARNINGS

1200.00

17622.50

FILING STATUS

TAX TYPE	AMOUNT	YTD AMOUNT
SOC SEC	71.69	1054.65
MEDICARE	16.77	246.69
\$ 00 +20 FEDERAL	157.39	2396.21
\$ 00 +5 TN	40.06	599.12
\$ 00 AC	23.13	340.27

TOTAL WITHHOLDINGS

309.04

4636.94

ADJUSTMENTS

AMOUNT	YTD AMOUNT
EXP REIMB 10.00 +	164.00 +
HLTH 43.75 -	612.50 -
EXMPLCO 401K 48.00 -	704.90 -

TOTAL ADJUSTMENTS

81.75 -

NET PAY

809.21

11,832.16

PAYROLLS FOR EXAMPLE COMPANY, INC.

\* 1030 1756 0001 000200

CHAPTER 11

Foundations in Personal Finance High School Edition