### Glossary

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| Term | Definition |
| Employee | A person who works for a business. Someone who is employed  by an employer. |
| Employer | A person or an institution that provides employment to others, usually the owners of a business. |
| Gross salary | Basic salary per month, prior to deductions. |
| Gross wage | Basic wage plus overtime, prior to deductions. |
| Medical aid fund  contributions | Employer’s contribution to medical aid fund. |
| Net salary | Gross salary – deductions = net salary. |
| Net wage | Gross wage – deductions = net wage. |
| Ordinary time | System according to which employees are paid a set fee per hour. Usually 40 hours per week. |
| Overtime  remuneration | Remuneration paid to workers who work longer hours than  ordinary time – usually at a set fee. |
| PAYE | Pay-as-you-earn system. |
| Pension fund  contribution | Employee’s contribution to pension fund. |
| Salary | An employee receives a basic monthly salary. |
| Salary advice | Slip given to each employee that provides information about gross salary, deductions and net salary. |
| SDL | Skills Development Levy. |

SETA

Sector Education and Training Authority.

**Term 2 Topic 2**

**Salaries and Wages**

### Salaries

Workers receive a basic wage on a weekly basis.

Wages

Envelopes containing cash that indicate the wages to be paid to workers. On the envelope information is provided as to how the

amount was calculated.

Wage envelopes

Employer’s contribution to Unemployment Insurance fund.

Unemployment

Insurance fund contribution

Standard Income Tax on Employees.

SITE

#### Introduction

Up to now you have studied businesses that only have one employee who receives a salary at the end of the month. Most businesses have more than one employee and at the end of the month a Salary Journal must be prepared – this journal indicates the amount each employee will receive. It also happens that some employees work part- time and receive their wages on a weekly basis – a Wages Journal will be set up.

An employer is a person who provides employment to others and an employee is a person who works for a business.

#### Salaries

An employee who receives a salary is usually a permanent employee and receives a salary at the end of the month. When salaried people are employed, the employer and employee agree on the annual salary and the amount is divided by 12 to determine the monthly salary. An employee can also receive a thirteenth cheque or bonus. A thirteenth cheque is equivalent to one month’s salary. The employer determines the bonus and it is usually calculated at a percentage. A salaried employee is appointed at a certain notch/scale.

Example:

1. Smit was employed on 1 January 2005. What does R. Smit receive annually and per month before deductions? The salary scale is as follows:

96 000 x 6 000 – 108 000 x 9 000 – 126 000

Year 1: R96 000 ÷ 12 = R8 000 monthly

Year 2: R96 000 + R6 000 = R102 000 ÷ 12 = R8 500

Year 3: R102 000 + R6 000 = R108 000 ÷ 12 = R9 000

Year 4: R108 000 + R9 000 = R117 000 ÷ 12 = R9 750

Year 5: R117 000 + R9 000 = R126 000 ÷ 12 = R10 500

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| Activity 1 |
| Showstar Traders employed M. Botha on 1 January 2002. The following annual scale was agreed upon:  180 000 x 12 000 – 204 000 x 18 000 – 240 000 |

Questions

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| 1.1 Complete the following table: | | | |
| Year | Annual increase | Annual salary | Monthly salary |
| 2002 | 0 | 180000 | 15000 |
| 2003 | 12000 | 192000 | 16000 |
| 2004 | 12000 | 204000 | 17000 |
| 2005 | 18000 | 222000 | 18500 |
| 2006 | 18000 | 240000 | 20000 |

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| 1.2 If he should receive a bonus of 60% of his monthly salary on 30 June 2004, what will his salary, prior to deductions, be on 30 June 2004? |
| Bonus : 17000 x 60% = 11 100  Salary 170 00  Total 28 100 |
| 1.3 If he should receive a thirteenth cheque on 31 December 2006 equal to his monthly salary, what will his salary, prior to deductions, be on 31 December  2006? |
| 20 000 + 20 000 = 40 000 |

### Wages

A person can be employed to receive a weekly wage, usually paid in cash. The worker is usually paid a fixed hourly wage. To determine the basic wage, the fixed hourly wage is multiplied by the number of hours worked per week. Workers who receive wages may also be paid overtime. All workers are expected to work 40 hours per week. (This is called ordinary time) All hours exceeding 40 hours per week are regarded as overtime.

Important:

Basic wage + overtime = Gross wage Gross wage – deductions = net wage

Example

1. Radebe receives the following:
   * R30 per hour for ordinary time.
   * R45 per hour for overtime.

What would his gross wage be if S. Radebe works 45 hours per week?

Solution

40 hours x R30 per hour = R1 200

(45 – 40) 5 hours x R45 per hour = R 225

Gross wage = R1 425

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| **Activity 2** |
| M. Fourie receives the following:   * R50 per hour for ordinary time. * R75 per hour for overtime. |

Question

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| Monday is a public holiday. M. Fourie worked 43 hours during the week. Calculate his  gross wage for the week. |
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### Deductions

Certain deductions need to be made before workers can receive their net salaries or net wages. Some of the deductions are compulsory while others are not. The employee may also request certain deductions from his or her salary, like bond repayments.

The following deductions are explained:

#### Pension fund contributions

In most cases pension fund contributions are compulsory for all employees. Employees contribute to the pension funds in order to save money for when they go on pension.

This is done by deducting a percentage of their gross salary. The employer may also make a contribution – the employer contribution. Both employer and employee contributions are paid to the pension fund on a monthly basis.

#### Income tax

Each citizen is expected to pay income tax. The amount is calculated according to the employee’s taxable income.

Taxable income = Gross salary – Pension fund contribution

The amount is calculated according to tables provided by the South African Revenue Service (SARS). These tables change constantly as they are determined by the Minister of Finance in his annual budget speech.

The determined amount is paid to SARS. An account is created, namely SARS (PAYE) = SARS (Pay-as-you-earn system).

At the end of the month the business must complete an EMP 201 that is forwarded to SARS together with the income tax payment.

At the end of the financial year (28 February) all employees receive an IRP 5 form that indicates each employee’s gross salary for the year as well as the amounts deducted for PAYE and SITE. Each employee must complete an income tax return in order to determine whether he or she has paid enough income tax during the year. In case of an overpayment, SARS repays the taxpayer, but in case where too little PAYE was paid, the taxpayer must pay the outstanding amount to SARS.

What is SITE?

On 1 March 1088 a Standard Income Tax on Employees system was introduced. According to this system income tax is deducted on all income received by employees. SITE is not a different tax, but the calculations are done at the end of the financial year rather than monthly.

#### Medical aid fund contributions

In most businesses it is compulsory for all employees to be members of a medical aid fund – for their own benefit. The employer may also contribute towards the medical aid fund. The deduction, as well as the employer contribution, is paid to the medical aid fund at the end of each month.

Many businesses are negatively influenced by the HIV/AIDS pandemic in South Africa as a result of absenteeism due to long periods of illness and death of staff members.

Productivity, profitability, health and safety as well as morale in the workplace are all negatively influenced by the pandemic.

Due to AIDS medical aid funds become depleted. Although medical aid funds only pay a small amount for a person suffering from AIDS, the problem is that the immune system of someone who suffers from AIDS is so weakened that this person is admitted to hospital for other diseases such as pneumonia, and not for AIDS. Medical aid funds then have to pay out large amounts for the treatment of these illnesses.

On 15 August 2004 an article appeared in Rapport in which the following questions were asked:

###### How can HIV/AIDS influence the business?

Persons who are HIV-positive become ill and their work is eventually influenced because they work at a slower pace due to a lack of energy and is absent from work often. Medical and pension fund costs become astronomical and the employee’s sick leave are soon depleted. Other people need to be trained to do the work. This results in additional costs for the employer. As a result productivity and profitability decrease.

###### May a worker with HIV/AIDS be dismissed?

An employee may not be dismissed because he or she is HIV-positive or has AIDS. An employer may dismiss a worker if her or his health has deteriorated to such an extent that he or she is no longer able to do the work, but then the reason for dismissal is disability due to ill health or injury (incapacity).

The Good Practice Code: Dismissal according to the Labour Relations Act 66 of 1995 (LRA) determines that the extent and seriousness of the disability must first be investigated.

In the first instance the employer must request a medical certificate from the employee. The employer must request an investigation by an independent doctor of his/her choice in order to confirm the diagnosis. The employer must request the employee’s doctor to suggest that his/her client have an HIV test done. Therapy before and after an HIV test is important.

The employer may not force the employee to have the test done. This must be done voluntarily and the result must be kept confidential. If the employee is absent for a long period, a temporary worker may be considered. The employee must also be given alternative or lighter work to do. The employee may only be discharged at that point where he or she can no longer do the work.

After a hearing has been conducted and after enough time has elapsed, counselling provided and serious attempts have been made to adapt the work to the employee’s abilities, the employee may be discharged if he or she is no longer able to do the work.

You must remember that HIV-positive workers must be allowed to work under normal circumstances as long as they are medically fit to do the work. They may under no circumstances be discriminated against.

Employers should take all reasonable steps in order to refer employees to available and suitable health, welfare and psycho-social services.

#### Unemployment Insurance Fund

All employees must pay unemployment insurance. The employer must also contribute to the Unemployment Insurance Fund. The contributions by the employer and the employee are paid to SARS at the end of the month. Just as in the case of income tax, the business must complete an EMP 201 and pay the UIF contributions (employer and employee contributions) to the SARS on a monthly basis.

#### Skills Development Levy (SDL)

The government has decided to finance skills development through a national development fund. The objective is to improve skills development by forcing employers to pay a skills development levy and encourage employers to claim a part of the levy in order to develop their employees’ skills.

An employer who is not registered for PAYE and whose salary expenses do not exceed R5 000 000 per year, is not eligible for payment – but must still register for the levy with SARS.

The employers have to pay 1% of their gross salaries/wages over to SARS.

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| **Activity 3** |
| *Required*  You have to do the following in the books of TAT Stores for October 2009:   * 1. Complete the Wage Journal on 28 October 2009, the last week of the month. Close off the journal and post to the General Ledger.   2. Complete the Salary Journal on 31 October 2009. Close off the journal and post to the General Ledger.   3. Make payments from the Cash Payments Journal and post to the General Ledger.   Note:   * The last cheque issued from the Cash Payments Journal was 946. * TAT Stores is a number of the New Pension Fund and Health Medical Aid Fund. |

Information

1. Totals of the Cash Payments Journal on 27 October 2009: Bank, R38 290

Creditors for wages, R6 690 Trading stock, R10 310 Sundry accounts, R21 290

1. Some balances in the General Ledger : Creditors for wages, R6 690

SARS – PAYE, R1 848 SARS – SDL, R92,40

Medical aid fund, R1 125 SARS – UIF, R504

Wages, R9 240

Medical aid fund contribution, R675 Unemployment Insurance Fund contributions, R252 Skills Development Levy, R92,40

1. Wage drawers Remuneration

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| Employees | Ordinary time | | Overtime | |
|  | Hours | Amount per hour | Hours | Amount per hour |
| G. Brutus | 40 | R25 | 6 | R37,50 |
| R. Johnson | 40 | R27 | 4 | R40,50 |
| M. le Roux | 40 | R18 | 8 | R27,00 |

Deductions

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| Employees | PAYE | Medical | UIF |
| G. Brutus | 20% | R50 | 1% of ordinary time |
| R. Johnson | 20% | R50 | 1% of ordinary time |
| M. le Roux | 20% | R50 | 1% of ordinary time |

1. Salaried employees Remuneration

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| Employees | Per year |
| M. Groenewaldt | R129 600 |
| R. Fouche | R99 600 |
| M. Rossouw | R150 000 |

Deductions

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| Employees | PAYE | Medical | Pension |
| M.  Groenewaldt | R2 700 | R200 | 7% |
| R. Fouche | R1 494 | R240 | 7% |
| M. Rossouw | R3 500 | R280 | 7% |

Note:

* + TAT Stores must pay 1% Skills Development Levy.
  + TAT Stores’ contribution to the medical aid fund is R1,50 for each R1 contributed by the employee.
  + TAT Stores’ contribution to the Unemployment Insurance Fund is 1% of ordinary time.
  + TAT Stores’ contribution to the pension fund is on a rand-to-rand basis.

**Term 2 Topic 2**

**Salaries and Wages**

Answer sheet

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| Wage Journal of TAT Stores for the week ending 28 October 2009 WJ | | | | | | | | | | | | | |
| Employees | Ordinary time | | Overtime | | Gross wages | Deductions | | | Total deductions | Net wages | Employer contributions | | |
| Hours | Amount | Hours | Amount | PAYE | UIF | Medical | SDL | UIF | Medical |
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| Salary Journal of TAT Stores for the month ending 31 October 2009 SJ | | | | | | | | | | | |
| Employees | Gross salary | Deductions | | | Total Deductions | Net salary | Employers contributions | | | | Cheques issued |
| PAYE | Pension | Medical | SDL | Pension | Medical | Total |
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| Cash Payments Journal of TAT Stores – October 2009 CPJ | | | | | | | | | |
| Doc | Day | Name of payee | Fol | Bank | Creditors for wages | Trading stock | Sundry accounts | | |
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General Ledger of TAT Stores

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| Dr. Creditors for salaries B1 Cr | | | | | | | | | |
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| Dr Creditors for wages B2 Cr | | | | | | | | | |
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| Dr SARS - PAYE B3 Cr | | | | | | | | | |
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| Dr Pension fund B5 Cr | | | | | | | | | |
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| Dr Medical aid fund B6 Cr | | | | | | | | | |
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| Dr SARS - UIF B7 Cr | | | | | | | | | |
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