



13-1

# Calculating Costs of New Employee Recruitment

**Recruiting** is the act of soliciting qualified employees to work for your company. Recruiting costs include such things as advertising expenses, interviewing expenses, and hiring expenses.

**Example**

**Find the total recruiting cost.**

Welch Associates is seeking a Senior Business Analyst. Advertising costs for the position were \$3,275. They used an employment service in their placement search that charged a 25 percent fee on the first year salary of \$80,000. Interviewing expenses for candidates totaled \$2,835. Hiring costs included moving expenses of \$4,750 plus a 5 percent broker's fee on the sale of the new employee's house. The house sold for \$175,000. What are Welch's total recruiting costs?

1. Add the recruiting costs.

$$\text{Advertising Expenses} + \text{Interviewing Expenses} + \text{Hiring Expenses} = \text{Total Recruiting Cost}$$

$$\$3,275 + \$2,835 + [(\$80,000 \times 25\%) + \$4,750 + (\$175,000 \times 5\%)] = \mathbf{\$39,610 \text{ total recruiting cost}}$$

**Practice**

**Find the total recruiting cost.**

	<b>Advertising Expenses</b>	<b>Interviewing Expenses</b>	<b>Hiring Expenses</b>	<b>Total Recruiting Costs</b>
1.	\$ 875	\$1,492	\$500 and \$15,000	
2.	\$1,290	\$544 and \$379	\$624 and \$2,381	
3.	\$550	\$1,364	\$12,307	
4.	\$1,529	\$736 and \$932	\$327, \$5,230, and \$11,178	

5. Luxbrite Corporation hired Susan Phillips at an annual salary of \$62,500. Advertising costs for the position totaled \$2,320. The employment agency's finder's fee is 20 percent of the first year's salary. Interviewing costs were as follows: Susan Phillips \$237 and Hal Oberlan \$354. What was the total recruiting cost?
6. **Standardized Test Practice** Newtell Agency hired Sylvia Axton as its new Director of Accounting Services at an annual salary of \$125,000. Executive Services charged a fee of 25 percent of the first year's salary to help find candidates. Local advertisements totaled \$1,389. Newtell also paid moving costs of \$3,599 for Axton plus a 4 percent broker's fee on the sale of her \$220,000 home. Interviewing costs for Axton and 2 other candidates totaled \$2,337. What were the total recruiting costs to fill the position?  
**A. \$7,325    B. \$38,575    C. \$47,375    D. \$352,325**

## 13-2 Computing New Salaries

A **salary scale** is a table used to compare wages for different jobs at a company. This allows you to estimate **cost-of-living adjustments**, which are raises in salary to keep up with inflation, and **merit increases**, which are raises in salary for superior job performance.

### Example

**Find the new salary.**

Josiah Freeman is employed as a Senior Business Analyst, Level 1. His company has decided to give all employees a 2.5 percent cost-of-living adjustment. In addition, it has awarded Freeman a 2.75 percent merit increase.

Salary Level	Business Analyst Trainee	Business Analyst	Senior Business Analyst
1	\$28,000	\$37,500	\$52,000
2	32,000	42,000	56,000
3	35,000	48,000	60,000

- Find the present salary.  
\$52,000
- Find the cost-of-living adjustment.  
 $\$52,000 \times 2.5\% = \$1,300$
- Find the merit increase.  
 $\$52,000 \times 2.75\% = \$1,430$
- Find the new salary.

**Present Salary + Cost-of-Living Adjustment + Merit Increase = New Salary**

$$\$52,000 + \$1,300 + \$1,430 = \$54,730 \text{ new salary}$$

### Practice

Use the salary scale above to answer Problems 1–4.

- Business Analyst Trainee, Level 2. Cost-of-living adjustment: 3 percent. What is the new salary?
- Business Analyst Trainee, Level 3. Cost-of-living adjustment: 2.5 percent. Merit increase: 3 percent. What is the new salary?
- Business Analyst, Level 1. Merit increase: 3.75 percent. What is the new salary?
- Senior Business Analyst, Level 3. Cost-of-living adjustment: 2.5 percent. Merit increase: 2.75 percent. What is the new salary?
- Standardized Test Practice** Bill Rawls earns an annual base salary of \$27,500 and 2.5 percent commission on all sales. His employer is giving everyone a 2 percent cost-of-living adjustment. Rawls will also receive a 3 percent merit increase. What is his new salary if his sales for the year total \$130,250?  
A. \$29,562.50    B. \$32,131.25    C. \$33,718.75    D. \$28,875.00

# 13-3 Computing Employee Benefits

The company you work for may offer **employee benefits**, such as health insurance, life insurance, and paid vacations. The total of these benefits may be calculated as a percentage of annual gross pay.

**Example**

**Find the rate of benefits.**

Albert Hassan is employed as a Senior Business Analyst with an annual salary of \$52,000. His annual employee benefits include: 3 weeks paid vacation; 10 paid holidays; 5 sick days; paid health insurance at \$250 per month; and unemployment insurance at 4 percent of gross salary.

1. Find the weekly salary and daily salary.  
 $Weekly\ salary = \$52,000 \div 52 = \$1,000$   
 $Daily\ salary = \$1,000 \div 5 = \$200$
2. Find the total benefits.  
 $[(\$1,000 \times 3) + (\$200 \times 10) + (\$200 \times 5) + (\$250 \times 12) + (\$52,000 \times 4\%)] = \$11,080$
3. Find the rate of benefits.  
**Rate of Benefits = Total Benefits ÷ Annual Gross Pay**  
 $\$11,080 \div \$52,000 = 21.3\% \text{ rate of benefits}$

**Practice**

**Find the rate of benefits in Problems 1–4.**

	<b>Annual Salary</b>	<b>Total Benefits</b>	<b>Rate of Benefits</b>
1.	\$28,000	\$ 9,100	
2.	35,000	10,500	
3.	42,750	12,125	
4.	55,875	14,266	

5. Jane Darwell’s annual salary is \$60,060. Her benefits include 2 weeks paid vacation, 1 week paid sick leave, 3.5 percent worker’s compensation, 6.2 percent for Social Security (FICA), 1.45 percent for Medicare, and health insurance at \$70 per week. What are Darwell’s total annual benefits? What is her rate of benefits?
6. **Standardized Test Practice** Luis Guzman works as an assembly line foreman at \$16.85 per hour. He works 40 hours per week. His benefits include 2 weeks paid vacation, 8 paid holidays, 3 paid sick days, 3.75 percent worker’s compensation, and 4.5 percent unemployment insurance. What is Guzman’s rate of benefits?  
**A. 19.2%    B. 22.4%    C. 16.3%    D. 18.3%**

13-4

# Calculating Disability Benefits

**Disability insurance** protects you if you must miss work due to an illness or injury. Disability benefits are usually calculated based on a percentage of final average salary. Supplemental Social Security (SSI) also provides a disability benefits paid by the Social Security Administration. The basic monthly SSI check is \$531 for 1 person and \$796 for a couple.

**Example**

**Find the monthly disability benefit.**

Al Julia had worked at Turman Company for 25 years when he became disabled and could no longer work. He is now 51 and expected to retire at the age of 65. Turman’s rate of benefits is 2.15 percent and Julia’s final average salary was \$67,200.

1. Find the annual disability benefit.

$$\text{Annual Disability Benefit} = (\text{Years Worked} + \text{Expected Retirement Age} - \text{Present Age}) \times \text{Rate of Benefits} \times \text{Final Average Salary}$$

$$(25 + 65 - 51) \times 2.15\% \times \$67,200 = \$56,347.20 \text{ annual disability}$$

2. Find the monthly disability benefit.

$$\$56,347.20 \div 12 = \$4,695.60 \text{ monthly disability}$$

**Practice**

**Find the annual and monthly disability benefits.**

	<b>Years Worked</b>	<b>Expected Retirement Age</b>	<b>Present Age</b>	<b>Rate of Benefits</b>	<b>Final Average Salary</b>	<b>Annual Disability Benefit</b>	<b>Monthly Disability Benefit</b>
1.	22	62	56	2.20%	\$45,000	a.	b.
2.	27	65	58	2.00%	52,000	a.	b.
3.	18	63	41	1.90%	36,500	a.	b.
4.	12	65	43	1.85%	39,725	a.	b.

5. Mabel Waters, age 47, had worked 20 years when she became permanently disabled. She qualified for SSI. Assuming she is single with no dependents, what is her monthly SSI disability benefit?
6. Carl Ajalat worked for 32 years when he became permanently disabled. He was 52 years old and expected to retire at the age of 63. His final average salary was \$45,760 and his employer pays benefits at a rate of 2.25 percent. What is Ajalat’s monthly disability benefit?
7. **Standardized Test Practice** Ben Darius had worked for 15 years when he became permanently disabled and could no longer work. He is now 40 and expected to retire at the age of 64. His final average salary was \$32,500 and his rate of disability benefits is 2.1 percent. What is his weekly disability benefit?  
**A.** \$625.00    **B.** \$511.88    **C.** \$2,218.13    **D.** \$26,617.50



13-5

# Workers Compensation and Unemployment Insurance

**Workers compensation insurance** covers employees' medical expenses and lost wages if they are hurt on the job. Premiums are based on the employer's total payroll. **Unemployment insurance** provides financial aid to persons in the event that they involuntarily become unemployed. The federal unemployment tax (FUTA) rate is 6.2 percent of taxable wages. The taxable wage base is the first \$7,000 paid in wages to each employee during the year. Employers who pay the state unemployment tax (SUTA) on a timely basis receive an offset credit of up to 5.4 percent regardless of the rate of tax they pay the state. Thus, the net federal tax rate is generally 0.8 percent (6.2% - 5.4%).

**Premium for Workers Compensation Insurance = Base Rate × Total Payroll**

**Example**

Find the state and federal unemployment taxes.

A small business has 4 employees, each of whom earns \$50,000 per year. Because the company has occasional layoffs, it must pay state unemployment tax of 5.4 percent.

1. Find the state unemployment tax.  
 $(\$7,000 \times 4 \times 5.4\%) = \mathbf{\$1,512 \text{ state unemployment tax}}$
2. Find the federal unemployment tax.  
 $[\$7,000 \times 4 \times (6.2\% - 5.4\%)] = \mathbf{\$224 \text{ federal unemployment tax}}$

**Practice**

Find the monthly workers compensation premium.

	Type of Business	Monthly Payroll	Base Rate per \$100	Monthly Premium
1.	Construction	\$16,000	\$17.28	
2.	Insurance Sales	19,760	9.72	
3.	Retail Sales	30,852	3.46	

Find the state tax amount, federal tax rate, and federal tax amount. Remember that 5.4 percent is the maximum state tax rate that can be applied toward the federal tax rate.

	Employee	Annual Wage	State Tax Rate	State Tax Amount	Federal Tax Rate	Federal Tax Amount
4.	Y. Ozu	\$29,000	5.4%	a.	b.	c.
5.	S. Frears	37,500	3.7%	a.	b.	c.
6.	B. Duke	6,950	4.2%	a.	b.	c.

7. **Standardized Test Practice** Greg Amin earns an annual salary of \$55,000. His employer's base rate for workers compensation insurance is \$12.63 per \$100 paid to employees. The state unemployment tax rate is 5.2 percent. How much does Amin's employer pay per year for workers compensation, state unemployment, and federal unemployment insurance?  
**A.** \$7,380.50    **B.** \$9,806.50    **C.** \$7,310.50    **D.** \$6,946.50

13-6

# Calculating Business Travel Expenses

**Travel expenses** include such things as transportation, lodging, and meals. You'll need to know how to calculate your travel expenses if you want to be correctly reimbursed.

$$\text{Cost of Transportation} + \text{Cost of Lodging} + \text{Cost of Meals} + \text{Additional Costs} = \text{Total Travel Expenses}$$

**Example**

**Find the total travel expenses.**

Art Blake attended a 5-day manager's seminar. His employer will reimburse him for travel expenses. He drove a total of 454 miles, for which he will be paid at a rate of \$0.27 per mile. Tolls cost him \$6.40. The seminar's registration fee was \$375. His hotel cost him \$97 per night for 4 nights. His meals totaled \$118.

- Find the cost of transportation.  
 $(454 \times \$0.27) + \$6.40 = \$128.98$

- Find the cost of lodging.  
 $(\$97 \times 4) = \$388$

- Find the total travel expenses.

$$\begin{array}{r} \text{Total Travel} \\ \text{Expenses} \end{array} = \begin{array}{r} \text{Cost of} \\ \text{Transportation} \end{array} + \begin{array}{r} \text{Cost of} \\ \text{Lodging} \end{array} + \begin{array}{r} \text{Cost of} \\ \text{Meals} \end{array} + \begin{array}{r} \text{Additional} \\ \text{Costs} \end{array}$$

$$\$128.98 + \$388 + \$118 + \$375 = \$1,009.98 \text{ total travel expenses}$$

**Practice**

**Find the transportation cost and total expenses.**

	<b>Name</b>	<b>Miles</b>	<b>Cost at \$0.28/mile</b>	<b>Meals</b>	<b>Hotel Room</b>	<b>Total Expenses</b>
1.	H. Gibson	50	a.	\$ 17.00	\$ 0.00	b.
2.	M. Frank	95	a.	32.50	75.00	b.
3.	L. Lupino	157	a.	47.88	165.00	b.
4.	B. Oliver	218	a.	72.16	267.00	b.

- Deana Ortiz traveled to a company branch to train new employees. She drove 122 miles, for which she was reimbursed \$0.29 per mile. She also had lunch twice, once for \$9.87 and once for \$12.19. What were her total travel expenses?
- Standardized Test Practice** Dan Ozawa traveled to a sales seminar in Dallas, Texas. Airfare cost him \$389. A car rental cost him \$27.95 per day for 5 days. His hotel room cost \$85 per night for 4 nights. A textbook and supplies for the seminar cost \$49.95. His meals totaled \$124.64. What were Ozawa's total travel expenses?  
**A.** \$676.54    **B.** \$788.34    **C.** \$1,043.34    **D.** \$1,541.90

13-7

# Computing Employee Training Costs

Your employer may send you to seminars or conferences for training. Expenses for training during regular work hours include the cost of **release time**. This means that you are paid your regular wages or salary while you are away from your job.

**Example**

**Find the total training costs.**

Teleco held an all day training seminar for 3 of its employees. Each of the employees earns \$200 per day. The instructor was also an employee who earns \$230 per day. A lunch was provided that cost a total of \$39.75. Textbook and materials for the seminar cost \$19.99 per person.

1. Find the cost of release time.

$$3 \times \$200 = \$600$$

2. Find the cost of instruction.

$$\$230$$

3. Find the additional costs.

$$(3 \times \$19.99) + \$39.75 = \$99.72$$

4. Find the total training costs.

$$\text{Total Training Costs} = \text{Cost of Release Time} + \text{Cost of Instruction} + \text{Additional Costs}$$

$$\$600 + \$230 + \$99.72 = \$929.72 \text{ total training costs}$$

**Practice**

**Find the total training costs.**

	Number of Days	Daily Cost of Release Time	Daily Cost of Instruction	Daily Cost of Supplies	Total Training Costs
1.	1	\$425	\$100	\$25.00	
2.	2	575	200	75.00	
3.	3	645	145	55.00	
4.	1	872	218	29.95	

5. Ruth Loo is offering a 2-day sales seminar for 4 of her employees. Her daily salary is \$245. Two of the employees together earn \$160 per day, while the other 2 together earn \$175 per day. Materials for the training session cost \$89 per day per trainee. How much will the 2-day seminar cost Loo's company?

6. **Standardized Test Practice** Jay Harrad and 2 trainees were sent to a 2-day sales seminar. The registration fee was \$165 per person. Training materials cost \$35 per person. Harrad earns a yearly salary of \$52,000 and the 2 trainees earn \$14.50 per hour each for a standard 40-hour workweek. What were the total training costs?

- A. \$1,464    B. \$1,264    C. \$2,788    D. \$3,788



# 13 Chapter Review

## ***How Much Does Your Boss Really Spend on You?***

You think your boss is cheap and doesn't pay you what you're worth? There's a lot more expense involved in having you as an employee than just your salary. Let's take a look at how much your boss *really* spends on you.

1. You earn \$25,000 per year. It's the beginning of a new year and your boss gives all employees a 2.5 percent cost-of-living increase. He has also done job performance reviews and decided to reward you with a 3 percent merit increase. What is your new salary?
2. Your annual employee benefits include the following: 2 weeks paid vacation; 8 paid holidays; 3 paid sick days; and 80 percent of your annual \$3,200 health insurance premium paid. Using your *new* salary from Problem 1, what are your annual benefits?
3. Your benefits are what percentage of your annual salary?
4. Now what total amount does your employer spend on you annually if you include your benefits?
5. Don't forget about workers compensation insurance and unemployment insurance, which your boss is required by law to pay. Your employer's base rate for workers compensation is \$7.75 per \$100 paid to employees. The state unemployment tax rate is 5 percent. Based on your *new* salary from Problem 1, what total amount does your boss pay for your workers compensation insurance, SUTA, and FUTA?
6. Now what total amount does your boss spend on you if you include benefits, workers compensation insurance, SUTA, and FUTA?
7. Your company also pays for you to attend a 2-day seminar on communication in the workplace. Registration and tuition for the seminar were \$250. Workbook and materials cost an additional \$37.50. Meals were provided twice each day at a cost of \$9.95 per meal. What total amount in training costs did your employer spend on you?
8. Including benefits, workers compensation insurance, SUTA, FUTA, and training costs, what is the total amount your boss spent on you this year?

This is how much your employer *really* spends on you. He's not such a bad boss after all, is he?