

# Bonus example writing assignment

Finance



BONUS Use the data below to answer the questions. Employee Salary Grade

Annual Salary Performance Rating Sarah 10 58, 000 3 Ben 12 80, 000

Stephen 1164, 000

1

Mary

12

78, 000

2

Jennifer

10

60, 000

3

Salary Grade

Bonus Target

10

8%

11

8%

12

10%

1. Determine the monthly accrual amount for each of the 5 employees based on the target plus 1% accrual assumption.

Employee

Salary Grade

Annual Salary

Performance Rating

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Bonus Target

Bonus Award

Monthly Accrual Amount (Bonus Award + 1% of Annual Salary)

Sarah

10

58,000

3

8%

4,640

5,220

Ben

12

80,000

1

10%

8,000

8,800

Stephen

11

64,000

1

8%

5,120

5,760

Mary

12

78,000

2

10%

7,800

8,580

Jennifer

10

60,000

3

8%

4,800

5,400

2. Determine the total payout for each employee based on the actual payout percentage; be sure to include any adjustments for performance.

Employee

Salary Grade

Annual Salary

Performance Rating

Bonus Target

Bonus Award

Increased Bonus Award due to company's performance (125%)

Sarah

10

58,000

3

8%

4, 640

5, 800

Ben

12

80, 000

1

10%

8, 000

10, 000

Stephen

11

64, 000

1

8%

5, 120

6, 400

Mary

12

78, 000

2

10%

7, 800

9, 750

Jennifer

10

60, 000

3

8%

4, 800

6, 000

Employee

Increased Bonus Award due to company's performance (125%)

Performance Rating

Additional Bonus on Individual Performance

Increased Bonus Award

Sarah

5, 800

3

-

5, 800

Ben

10, 000

1

20%

12, 000

Stephen

6, 400

1

20%

7, 680

Mary

9, 750

2

10%

10, 725

Jennifer

6, 000

3

-

6, 000

Employee

Increased Bonus Award

Monthly Accrual Amount (Bonus Award + 1% of Annual Salary)

Total Payout

Sarah

5, 800

5, 220

580

Ben

12, 000

8, 800

3, 200

Stephen

7, 680

5, 760

1, 920

Mary

10, 725

8, 580

2, 145

Jennifer

6, 000

5, 400

600

3. Assume these employees all pay 39% tax on their bonus. What is their total after tax take home bonus, per employee?

Employee

Total Payout

Tax on Bonus @39%

After Tax Bonus

Sarah

580

226. 20

353. 80

Ben

3, 200

1, 248. 00

1, 952. 00

Stephen

1, 920

748. 80

1, 171. 20

Mary

2, 145



836. 55

1, 308. 45

Jennifer

600

234. 00

366. 00

4. Write a short (professional) email to the CFO of the company explaining the total bonus payout using the 125% of target, including all performance adjustments. Explain the differences between the total accrual and the total payout number.

Email:

The Chief Financial Officer

[Company Name]

I am writing this email to you in respect of the annual bonus to employees for the financial year ended December 31, 2013. The bonus will be paid out to the employees on January 15, 2014.

The company has decided to payout the bonus to employees at 125% of the target. The bonus target is set as a percentage of the employee's salary and also depends on the employees' salary grades; the higher the salary grade, the greater will be the bonus target. For the year 2013, normal bonus award amounts to \$30, 360. The additional 125% of the bonus target is being paid out to the employees due to the company's good performance. You will appreciate that this better performance may not be achieved without the hard efforts the employees have put in. So, they deserve to enjoy a portion of company's profits that is the result of their untiring efforts. The annual bonus payout at 125% amounts to \$37, 950.

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Besides company's performance, the employees are also awarded with bonuses on the basis of their individual performances as per company policy. For evaluating individual performance, the company has maintained "Employee's Performance System" through which all employees are given performance rating on the basis of their performance in the year. The bonus of the employees receiving performance rating 1 is increased by 20% and that of receiving performance rating 2 is increased by 10%. No increase in bonus is awarded to employees receiving bonus rating less than 2. The annual bonus due to performance rating is increased to \$42, 205.

The company has a policy to accrue each year bonus using the target bonus percentage plus 1% for performance fluctuations. The accrued bonus for the year amounts to \$33, 760. The gross bonus payout to employees amounts to \$8, 445 (\$42, 205-\$33, 760). The tax is payable on bonuses on cash basis @39%. The total tax payment amounts to \$3, 249. Thus the net after tax bonus for the employees is \$5, 151.

I want to further explain to you regarding the difference between the total accrual and the total bonus payout. The bonus is accrued at the percentage of target plus 1% of the annual salary. This accrual does not includes the effects of fluctuations in bonuses occurred due to company's performance and individual performances of the employees. On the other hand, the total bonus payout is calculated after incorporating the effects of company as well as individual performances. Thus, the difference is necessarily exist between these two amounts.

I believe that the above email will suffice your requirements regarding bonus payout calculations. However, I shall be pleased to provide you any further information, should you so desire.

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Manager Finance

[Your Name]