

Section 1.2 – Ways of Earning: Salary and Commission

Salary (Hours do not Matter)

- Salary is an **annual income** – an amount you get paid every year
- Salary can be paid out on a **bi-weekly or semi-monthly** basis.
 - What's the difference?
 - How many **weeks** in a **year**? 52
 - How many **months** in a **year**? 12
 - So if you get paid **bi-weekly** (every two weeks), how many paychecks do you get?

$$52 \div 2 = 26$$

- If you get paid **semi monthly** (twice a month), how many paychecks do you get?

$$12 \cdot 2 = 24$$

So bi-weekly you get 2 more paychecks! Same if you get paid hourly, every two weeks.

- Your annual salary is the same, but what changes is how much you get each paycheck

Salary	Bi-Weekly	Semi-Monthly
\$60 000	$\$60\,000 \div 26$ \$2307.70	$\$60\,000 \div 24$ \$2500.00
\$45 000	$\$45\,000 \div 26$ \$1730.77	$\$45\,000 \div 24$ \$1875.00

- Again, all totals are before deductions

You can figure out your Salary from your paycheck too

- Pay **before deductions** is called your **GROSS** pay
- Pay **after deductions** is called your **NET** pay

Salary is based on this one

Example: If you make \$2300 GROSS on a paycheck what is your salary if you get paid semi-monthly? What would your paycheck be if you were paid bi-weekly with the same salary?

Solution:

$$\$2300 \cdot 24 = \$55\,200 \text{ annually}$$

Annual Salary

$$55\,200 \div 26 = \$2123.08 \text{ bi - weekly}$$

What Bi-Weekly GROSS pay would be

When calculating your Salary from your paycheck you need to know whether you are paid bi-weekly or semi-monthly, then you can determine your GROSS pay.

Bi-Weekly vs. Semi-Monthly

Pro's	Con's
<ul style="list-style-type: none"> ○ Paycheck is always the same ○ Not based on hours worked 	<ul style="list-style-type: none"> ○ Paycheck is always the same ○ Not based on hours worked

Why would these be the same?

- You could work more than 40 hours and only get paid for 40
- You could work less than 40 hours and get paid for 40
- You know exactly how much you will get paid each pay period
- There is no incentive to put in more time to increase wage

Commission

- Commission is similar to tips, you get a **percentage on the sale** that is made
 - It can be included **on top** of a **salary or hourly wage**
 - Or your job is **based purely on commission**
- Having a salary or hourly wage and commission provides you with the guarantee of money coming in, but generally the commission percentage is quite low
- When you work strictly commission it is risky, you are not guaranteed money unless you make a sale, but generally the commission percentage is higher
- Calculating commission is **all about percentage**, remember:
 - $2\% = 0.02$
 - $5\% = 0.05$
 - $12.5\% = 0.125$

Example: Genevieve is a car salesperson, she does not make a salary or hourly wage, but makes 2% commission on her sales. How much money does she make on a car that is \$53 000?

Solution:

$$53\,000 \cdot 2\% \rightarrow \$53\,000 \cdot 0.02 = \$1060$$

She makes **\$1060 on that sale**

Example: Grant sells Real Estate, he makes 3.5% on the first \$100 000 and 1% on the rest of the sale price, how much money does he make if he sells a house for \$850 000?

Solution:

$$\$100\,000 \cdot 3.5\% \rightarrow \$100\,000 \cdot 0.035 = \$3500$$

$$\$750\,000 \cdot 1\% \rightarrow \$750\,000 \cdot 0.01 = \$7500$$

Then **add** those together

$$\$3500 + \$7500 = \$11\,000$$

Grant makes **\$11 000** on the sale!!!

- Now if you have an hourly wage and you make a commission, just calculate the two wages separately and add them together

Example: Shi works at Below the Belt, she makes \$12.45/hr and makes 0.5% commission on her sales. Yesterday she worked for 6 hours and sold \$4500 worth of merchandise, how much did she make that day?

Solution:

$$\frac{\$12.45}{hr} \cdot 6hr = \$74.70$$

$$\$4500 \cdot 0.5\% \rightarrow \$4500 \cdot 0.005 = \$22.50$$

Then add them up

$$\$74.70 + \$22.50 = \$97.20$$

Shi makes **\$97.20**

- **Can you work it out backwards?**

<p>If Stephanie makes \$18 500 in commission on a sale, and her commission rate is 2.5%, what was the sale price?</p> <p>If: $Sale\ Price(2.5\%) = \\$18\ 500$</p> <p>Then: $SP = \frac{\\$18\ 500}{2.5\%} \rightarrow \frac{\\$18500}{0.025} = \\$740\ 000$</p> <p>The original <i>sale price</i> was: \$740 000</p>	<p>If the sale price is \$540 000 and the commission was \$27 000 what is the commission percentage?</p> <p>If: $\\$540\ 000(Commission) = \\$27\ 000$</p> <p>Then: $Commission = \frac{\\$27\ 000}{\\$540\ 000}$</p> <p>$Commission = 0.05 = 5\%$</p>
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- Working backwards means we have to use our Algebra Skills once again!
- You'll again that our units cancel out perfectly.

Up next we will look at the different deductions that come off your GROSS pay.

Section 1.2 – Practice Problems

1. If your annual salary is \$125 000 and you get paid bi-weekly, what is your Gross Pay? What is it if you get paid semi-monthly?

2. If you get a Gross Pay Paycheck twice a month of \$3200, what is your annual salary?

3. Complete the following chart.

Annual Salary	Bi-Weekly Pay	Semi-Monthly Pay
	\$2400	
\$23 800		
		\$2850
\$83 500		
	\$1958	
		\$4200

Workplace 11

8. Complete the following table, show your work below.

Selling Price	Commission Rate	Commission Amount
	4.75%	\$29 925
\$6200		\$387.50
	2.3%	\$125.50

Section 1.2 – Answer Key

1. *BW*: \$4807.69
SM: \$5208.33
2. \$76 800
3. Left to Right – Top
to Bottom
 - i. \$62 400
 - ii. \$2600
 - iii. \$915.38
 - iv. \$991.67
 - v. \$68 400
 - vi. \$2630.77
 - vii. \$3211.54
 - viii. \$3479.17
 - ix. \$50 908
 - x. \$2121.17
 - xi. \$100 800
 - xii. \$3876.92
4. \$2275
5. \$146.50
6. *Answers will Vary*
7. \$46 350
8. Left to Right – Top
to Bottom
 - i. \$630 000
 - ii. 6.25%
 - iii. \$5456.52