

Payroll Accounting

Chapter 11

CPP Study Class
2017

American Payroll
Association

Los Angeles
CHAPTER

Payroll data is used in financial recordkeeping for:

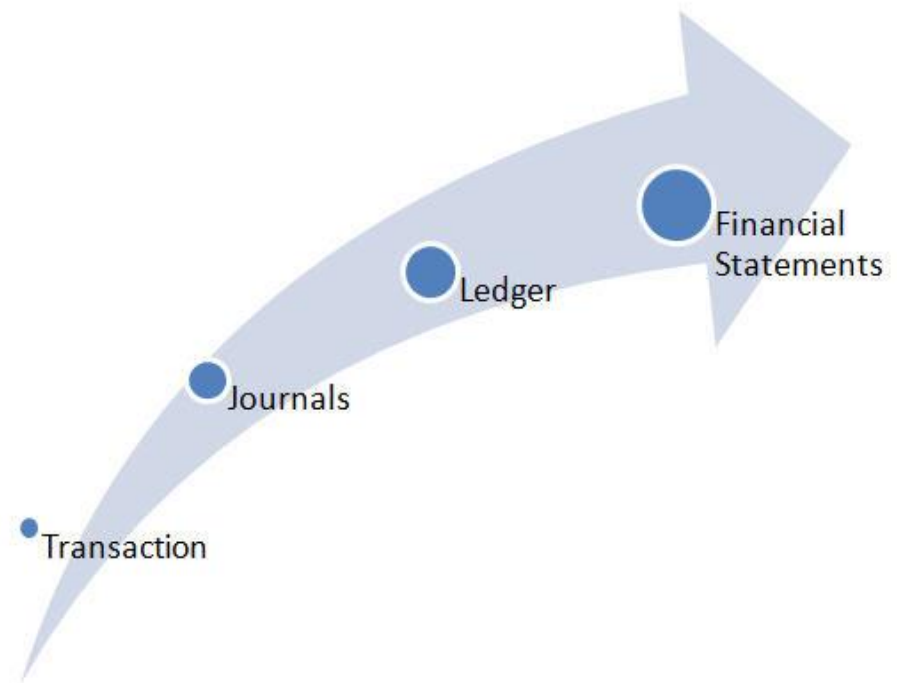
- **General Accounting** – record transactions in company's books and prepare financial statements (internal & external)
- **Cost Accounting** – cost of labor (regional, departmental, etc)
- **Budgeting** – projecting costs to keep within limits

Accounting Principles

- Business entity concept
- Continuing concern concept
- ★ Time period concept
- Cost principle
- Objectivity principle
- ★ Matching principle
- Realization principle
- ★ Consistency principle

Accounting Terminology & Concepts

- Accounting Flow



Balance Sheet formula

What you Have -- What you Owe = Net Worth

- **Assets – Liabilities = Equity**

DR - CR = CR
Debit Credit Credit

Balance sheet shows financial position at a particular point in time

Income Statement

- Revenue – Expenses = Net Income
CR - DR = CR

In order for each equation to remain in balance, a “**double entry**” for each transaction is required.

Debits always equal Credits.

Type of General Ledger Accounts

<u>ACCOUNT</u>	<u>Where Used</u>	<u>Examples</u>
★ <u>A</u> sset	Balance Sheet	Cash, checking a/c
★ <u>E</u> xpense	Income Statement	Salary Exp, ER Tax Exp, ER 401(k) Match
★ <u>L</u> iability	Balance Sheet	Salary Payable, Taxes Payable, Benefits Payable
● <u>R</u> evenue	Income Statement	Sales
● <u>N</u> et Worth(Equity)	Balance Sheet	Stock

★ accounts normally used in payroll

Payroll Expenses

- Wages / Salaries paid to employees
- Employer Payroll Taxes
- Employer-paid Benefit Costs
- Office Supply costs

Payroll Liability Accounts

- Wages payable
- Employment taxes withheld but not yet paid
- Contributions owed to a company benefit plan
- Union dues deducted from pay but not yet paid

Normal Account Balances

Account Type	Normal Balance	Debit (What it does to the account)	Credit (What it does to the account)
Asset	Debit	Increase	Decrease
Liabilities	Credit	Decrease	Increase
Equity/Capital/Net Worth	Credit	Decrease	Increase
Income/Revenue	Credit	Decrease	Increase
Expenses	Debit	Increase	Decrease

Account Balances

- When entries are recorded in an account, they are placed in a “T account”

- Any Asset or Expense



- Debit or Credit?
 - Vowels = Assets/Expense
 - Generally have a debit Balance

Account Balances (cont'd)

- Any Liability or Revenue Account

Debit	Credit
decreases	increases

- Debit or Credit?

Consonant = Liability/Capital(Equity) /Revenue

- Generally have a credit balance

Accounting Tidbits

- Cash
 - Debits – Increase / Deposits
 - Credits – Decrease / Checks
- Traditional Balance
 - Expense – Debits
 - Liabilities – Credits
- Making a payment
 - Debit liability or Debit Expense
 - Credit Cash

Chart of Accounts

- A complete listing of account titles and account numbers in the ledger
- Example of a chart of accounts

Account Type	Account Number (Range)
Assets	100000 - 199999
Liabilities	200000 - 299999
Equity	300000 - 399999
Revenue	400000 - 499999
Expenses	500000 - 599999

Journal Entries

- A record of the transactions of a company during the accounting period
- Compound entries – more than one debit or credit
- Subsidiary Ledgers – Payroll Register - summarized and posted to the General Ledger
- General Ledger – book of Final Entry

Recording Payroll Transactions

- Payroll transactions- wages, deductions, withheld taxes, etc, – are initially recorded in the Payroll Register.
- Payroll registers- lists employee wages paid and deductions for each payroll period and may contain quarter to date and year-to-date totals.
- Journal entries are posted for : Payroll Expenses; Payroll Deductions; Payroll Cash Distribution and Employer Tax Liabilities.

Recording Payroll Transactions

Payroll Expenses

- Salaries are Expenses
- Can be recorded functionally (by dept) and/or by type of pay (Reg & OT)
- Increase the Expense and Increase a Liability (Salary Payable)
- Expense is recorded on the Pay Period End Date NOT Pay Date
- Refer to p 11- 8

<u>Pay Period Sun – Sat</u>	<u>Pay Date</u>	<u>Date of Expense</u>	<u>Record Expense in Month:</u>
05/31/16 – 06/13/16	06/18/16	06/13/16	JUNE
06/14/16 – 06/27/16	07/02/16	06/27/16	JUNE

<u>Account Description /Type</u>	<u>Debit</u>	<u>Credit</u>
Salary <u>E</u> xpense	\$6000	
Salary Payable <u>L</u> iability		\$6000

Recording Payroll Transactions

Payroll Deductions

- Deductions are Liabilitys -must be paid to 3rd party (IRS, state agency)
- Decreases the Salary Payable Liability and Increases the Tax/Other Payable Liability
- The Liability is incurred on the Pay Date
- See example 2 on p. 11- 9

<u>Pay Period Sun – Sat</u>	<u>Pay Date</u>	<u>Date of Liability</u>	<u>Record Liability in Month:</u>
05/31/16 – 06/13/16	06/18/16	06/18/16	JUNE
06/14/16 – 06/27/16	07/02/16	07/02/16	JULY

Salary/Wage Payable <u>L</u> iability	\$2,159	
Federal income tax withheld <u>L</u> iability		\$1,200
State income tax withheld <u>L</u> iability		\$ 300
Social Security withheld <u>L</u> iability		\$ 372
Medicare tax withheld <u>L</u> iability		\$ 87
Health insurance premiums <u>L</u> iability		\$ 200

Recording Payroll Transactions

Payroll Cash Distribution / Net Pay

- Payroll cash distribution journal:
debit - accrued salaries/wages Liability
credit – payroll checking (cash) (Asset) account
- Recorded in the accounting period in which the employees are paid.
Cash is paid out and the Liability is discharged (zeroed out).
- Refer to p 11-9

<u>Account Description/Type</u>	<u>Debit</u>	<u>Credit</u>
• Salary/Wage Payable <u>L</u> iability	\$3,841	
• Payroll Checking Account <u>A</u> sset		\$3,841

Recording Payroll Transactions

Employer Tax Liabilitys and Expenses

- Employer taxes (FICA, SUI) are Expenses
- Increase the Expense and Increase the Liability (Taxes Payable)
- Entries made to the employer tax Liabilitys journal are recorded in the accounting period in which the employees are paid, since that is when the Liability is incurred. See p 11-10

<u>Account Description/Type</u>	<u>Debit</u>	<u>Credit</u>
Employer Tax <u>E</u> xpense (FICA, SUI, etc.)	\$819	
Social Security/Medicare <u>L</u> iability		\$372
Medicare Tax <u>L</u> iability		\$ 87
Federal Unemployment <u>L</u> iability		\$ 36
State Unemployment <u>L</u> iability		\$324

Accounting Periods

- An accounting period is any length of time covered by an income statement, which could be a month, a quarter, a year.
- Payroll taxes are always reported on a calendar year basis.
- Accounting Period 1 year in length is known as the accounting year
- Any 12-month accounting period adopted by a business is referred to as a Fiscal Year. It may or may not coincide with the calendar year.
- Payroll Dept may have 2 year end reconciliation process, one at fiscal year-end and one at calendar year-end.

Lucky us!!!

Accruals and Reversal Journal Entries

Use different accounts, but the same Account Type.
Refer to example on p 11-12.

<u>Account Description/Type</u>	<u>Debit</u>	<u>Credit</u>
Accrued Salary/Wage <u>E</u> xpense	\$30,000	
Accrued Salary/Wage Payable <u>L</u> iability		\$30,000

<u>Account Description/Type</u>	<u>Debit</u>	<u>Credit</u>
Accrued Employer Tax <u>E</u> xpense	\$4,095	
Accrued Social Security <u>L</u> iability		\$1,860
Accrued Medicare <u>L</u> iability		\$ 435
Accrued Federal Unemployment <u>L</u> iability		\$ 180
Accrued State Unemployment <u>L</u> iability		\$1,620

Accruals and Reversal Journal Entries

Reverse the entry the following month. Refer to p 11-13.

<u>Account Description/Type</u>	<u>Debit</u>	<u>Credit</u>
Accrued Salary/Wage <u>E</u> xpense		\$30,000
Accrued Salary Payable <u>L</u> iability	\$30,000	

<u>Account Description/Type</u>	<u>Debit</u>	<u>Credit</u>
Accrued Employer Tax <u>E</u> xpense		\$4,095
Accrued Social Security/Medicare <u>L</u> iability	\$1,860	
Accrued Medicare Liability	\$ 435	
Accrued Federal Unemployment <u>L</u> iability	\$ 180	
Accrued State Unemployment <u>L</u> iability	\$ 1,620	

Accruals and Reversal Journal Entries

Vacations

Refer to p 11-13

<u>Account Description/Type</u>	<u>Debit</u>	<u>Credit</u>
Accrued Vacation <u>E</u> xpense	\$3,500	
Vacation Liability <u>P</u> ayable		\$3,500

This entry records the employees accrual of vacation leave for the month

<u>Account Description/Type</u>	<u>Debit</u>	<u>Credit</u>
Accrued Vacation Expense		\$ 2,000
Vacation <u>L</u> iability Payable	\$ 2,000	

Accruals and Reversal Journal Entries

Bonus

<u>Account Description/Type</u>	<u>Debit</u>	<u>Credit</u>
Accrued Bonus <u>E</u> xpense	\$5,000	
Bonus Liability Payable		\$5,000

This entry records the accrual of the bonus earned by the employee during the month.

<u>Account Description/Type</u>	<u>Debit</u>	<u>Credit</u>
Accrued Bonus Expense		\$ 5,000
Vacation <u>L</u> iability Payable	\$ 5,000	

Reconciliations & Financials

- **Balancing and Reconciling Payroll Accounts**
 - Periodic Balancing and Reconciliation
 - Payroll Bank Account Reconciliation
- **Financial Statements and Audits**
 - Balance Sheet
 - Income Statement
 - Notes to Financial Statements
 - Auditing Financial Statements

Internal Controls (think SOX)

- Segregation of job duties
- Rotation of job duties
- Payroll distribution
- Phantom employees
- Negative pay deduction
- Payroll bank account
- Blank checks
- Time reporting
- Computer system edits
- Using an internal auditor

Payroll's role in SOX Compliance

- Develop process and workflow maps that show each function
- Create written documentation for each step in the payroll process and update documentation where it already exists
- Audit recordkeeping and retention procedures to make sure that records are organized and can be easily retrieved
- Identify and communicate to management gaps and risks that can lead to a lack of control and security
- Prepare an action plan and a way to measure progress to address the gaps and risks through adequate internal controls
- Document the design, evaluation, and testing of the internal controls

Controlling Check Fraud

- Group 1 security features are manufactured into the check paper. They are difficult and expensive to reproduce.
- Group 2 security features are printed onto the paper either when the paper is converted from raw material to check stock or when the check MICR or OCR lines, payee, and amount information is completed.
- Group 3 security is also called “ Positive Pay”- bank- sponsored electronic data checking. Most effective security measure but currently the most costly and labor intensive. It requires one –to – one comparison of company check issued and bank records of created document.

Check Clearing for 21st Century Act “Check 21”

- October 28, 2004 law was designed to promote innovation in the U.S. payments system while updating and eliminating some of the legal barriers governing how banks process paper checks.
- Substitute checks – paper reproduction of an original check – front and back image

Accounting Tidbits

- **A**ll **L**ittle **C**ats **R**each **E**xhaustion
 - **A**ssets
 - **L**iabilities
 - **C**apital
 - **R**evenue
 - **E**xpense

The End

Thank you

Sample Check

SAMPLE CHECK				
Polly Payroll			PP Begin	5/22/2017
123 Main Street			PP End	6/4/2017
Anywhere, CA 90009			Check Date	6/9/2017
Pay Frequency: Bi-Weekly				
EARNINGS			NET PAY	
Salary	3,400.00		Net	2,204.82
Group Term Life (GTL)	15.64			
TAXES			DEDUCTIONS	
Federal Income Tax	324.50		Medical/Dental	84.00
Social Security Tax	205.60		401k Plan	204.00
Medicare Tax	48.08		Child Support	125.00
State Tax	204.00		GTL Offset	15.64
Additional Information				
401k EE contribution		6%		
401k ER Match		4%	136.00	
ER Benefits Cost			346.00	

Pay Period Check

Bi-Weekly Pay Period 5/22/2017 - 6/4/2017			Check Date 6/9/2017										
Expenses booked in month based on PERIOD END Date			Accrual needed for days in May (5/22 - 5/26 and 5/29 - 5/31 (8 Days)										
Liabilities booked in month based on CHECK Date													
			DR	CR			*Additional Company (ER) Expenses						
			Expense	A	Liability	B				DR	CR		
Salary	\$ 3,400.00												
Federal Tax Withheld	324.50		Liability	b	Liability	c	20.40	FUI (.6%)		Expense	k	Liability	J
State Tax Withheld	204.00		Liability	b	Liability	d	115.60	SUI (3.4%)		Expense	k	Liability	J
Social Security Tax Withheld*	205.60		Liability	b	Liability	e	Ø	205.60	ER SS portion (6.2%)	Expense	k	Liability	E
Medicare Tax Withheld*	48.08		Liability	b	Liability	e	Ø	48.08	ER Med portion (1.45%)	Expense	k	Liability	E
Medical/Dental Deduction*	84.00		Liability	b	Liability	f	Ø	346.00	ER Benefit Costs	Expense	L	Liability	F
401k Deduction*	204.00		Liability	b	Liability	g	Ø	136.00	401k Match Contrib	Expense	M	Liability	G
Child Support Deduction	125.00		Liability	b	Liability	h							
NET PAY	\$ 2,204.82		Liability	b	Asset	i	871.68	Total ER Expenses					
*Additional ER Company Expense													
Tax Deposit/ Vendor Payments			DR		CR								
Federal Tax	324.50		Liability	c	Asset	i		941 Tax Deposit					
State Tax	204.00		Liability	d	Asset	i		State Tax Deposit					
Social Security Tax	205.60		Liability	e	Asset	i		941 Tax Deposit					
Medicare Tax	48.08		Liability	e	Asset	i		941 Tax Deposit					
Medical/Dental Deduction	84.00		Liability	f	Asset	i		Vendor Payment					
401k Deduction	204.00		Liability	g	Asset	i		Vendor Payment					
Child Support	125.00		Liability	h	Asset	i		Court Payment					
FUTA (FUI)	20.40		Liability	j	Asset	i		940 Tax Deposit					
SUTA (SUI)	115.60		Liability	j	Asset	i		State Tax Deposit					
ER Soc Sec portion	205.60		Liability	e	Asset	i		941 Tax Deposit					
ER Medicare portion	48.08		Liability	e	Asset	i		941 Tax Deposit					
ER Benefits Cost portion	346.00		Liability	f	Asset	i		Vendor Payment					
401k Retirement Match	136.00		Liability	g	Asset	i		Vendor Payment					

Journal Transaction

Salary	A	(Expense)	B	(Liability)	I	(Asset)
		SALARY/WAGES EXPENSE		SALARY/WAGES PAYABLE		CASH / PAYROLL BANK A/C
	DR	CR	DR	CR	DR	CR
	3,400.00			3,400.00		2,204.82
			324.50			831.86
			204.00			204.00
			253.68			136.00
			84.00			430.00
			204.00			340.00
			125.00			125.00
			2,204.82			
Taxes W/H	C	(Liability)	D	(Liability)	E	(Liability)
		FIT WITHHELD PAYABLE		SIT WITHHELD PAYABLE		SS/MED W/H & ER PAYABLE
	DR	CR	DR	CR	DR	CR
	324.50	324.50	204.00	204.00		205.60
						48.08
						205.60
						48.08
					507.36	
Deductions	F	(Liability)	G	(Liability)	H	(Liability)
		HEALTH & WELFARE PAYABLE		401K RETIREMENT PAYABLE		GARN/CHILD SUPP PAYABLE
	DR	CR	DR	CR	DR	CR
		84.00		204.00		125.00
		346.00		136.00	125.00	
	430.00		340.00			
FUI/SUI	J	(Liability)				
		UI PAYABLE				
	DR	CR				
	136.00	20.40				
		115.60				
ER Expense	K	(Expense)	L	(Expense)	M	(Expense)
		EMPLOYER TAX EXPENSE		BENEFITS EXPENSE		401K RETIREMENT EXPENSE
	DR	CR	DR	CR	DR	CR
	205.60		346.00		136.00	
	48.08					
	20.40					
	115.60					

	A (Expense)		B (Liability)		I (Asset)	
Salary	SALARY/WAGES EXPENSE		SALARY/WAGES PAYABLE		CASH / PAYROLL BANK A/C	
	DR	CR	DR	CR	DR	CR
	3,400.00			3,400.00		2,204.82
			324.50			831.86
			204.00			204.00
			253.68			136.00
			84.00			430.00
			204.00			340.00
			125.00			125.00
			2,204.82			