

# California Payroll Conference

September 11 and 12, 2014

Accounting for Payroll

Julius Soriano

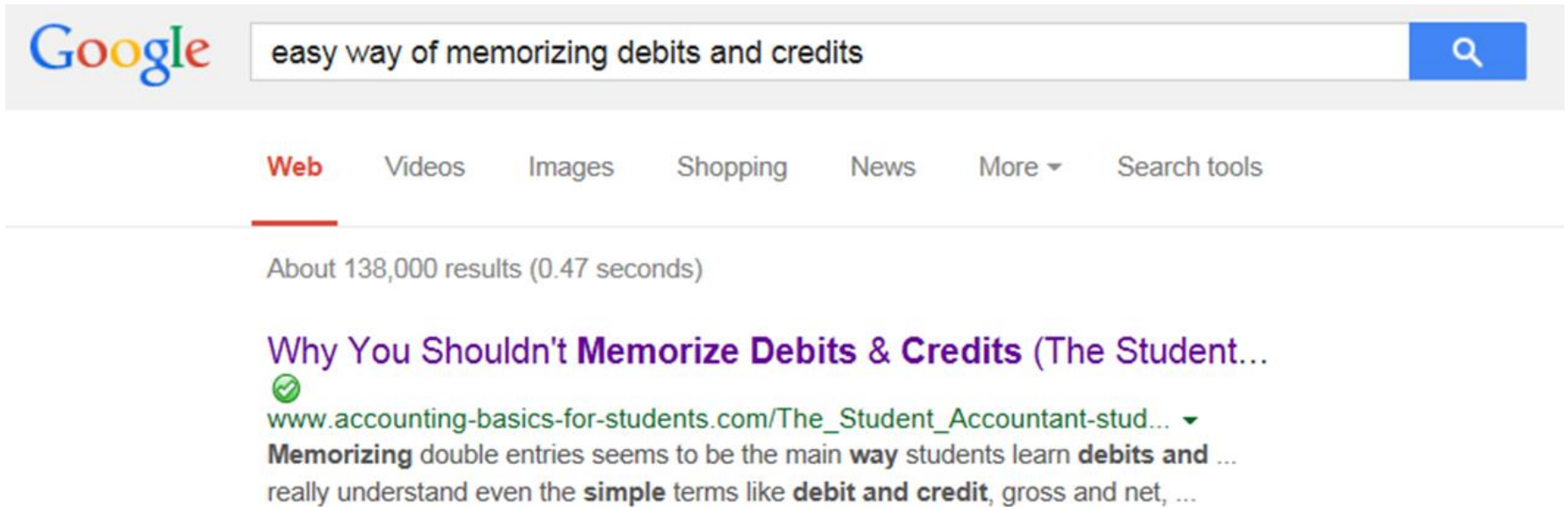
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# Debits and Credits



Because 95% of the time it's totally unnecessary. Because it'll give you *headaches*. Because memorizing journal entries takes many, many hours over the course of your studies, time which can easily be saved by just making sure you *fully understand* the **accounting equation and debits and credits in the first place.**

## AGENDA

- Introduction
- Accounting Equation
- Basics of Accounting
- Proper Set-up and GL Mapping
- Recording Journal Entries
- Accruals
- Reconciliations
- Financial Statements



### EXPECTATIONS

1. **Learn Basics of Accounting for Payroll**
2. **Understand Importance of Key Controls**
3. **Tips on Improving Dynamic Between Payroll and Accounting**



# Julius Soriano

## Introduction

California Board of Accountancy



WILLIAMS-SONOMA  
POTTERY BARN



CLASS  
SCHEDULES



# Accounting Equation

Balance  
Sheet

$$\text{ASSETS} = \text{LIABILITIES} + \text{OWNERS'S EQUITY}$$
$$\$3,000 = \$2,400 + \$600$$

Income  
Statement  
(Profit &  
Loss)

$$\text{INCOME} = \text{REVENUE} - \text{EXPENSES}$$
$$\$100 = \$300 - \$200$$

Expanded Accounting Equation

$$\text{ASSETS} + \text{EXPENSES} = \text{LIABILITIES} + \text{OWNER'S EQUITY} + \text{REVENUE}$$

$$\$3,000 + \$200 = \$2,400 + \$500 + \$300$$

DEBIT BALANCES

DEBITS

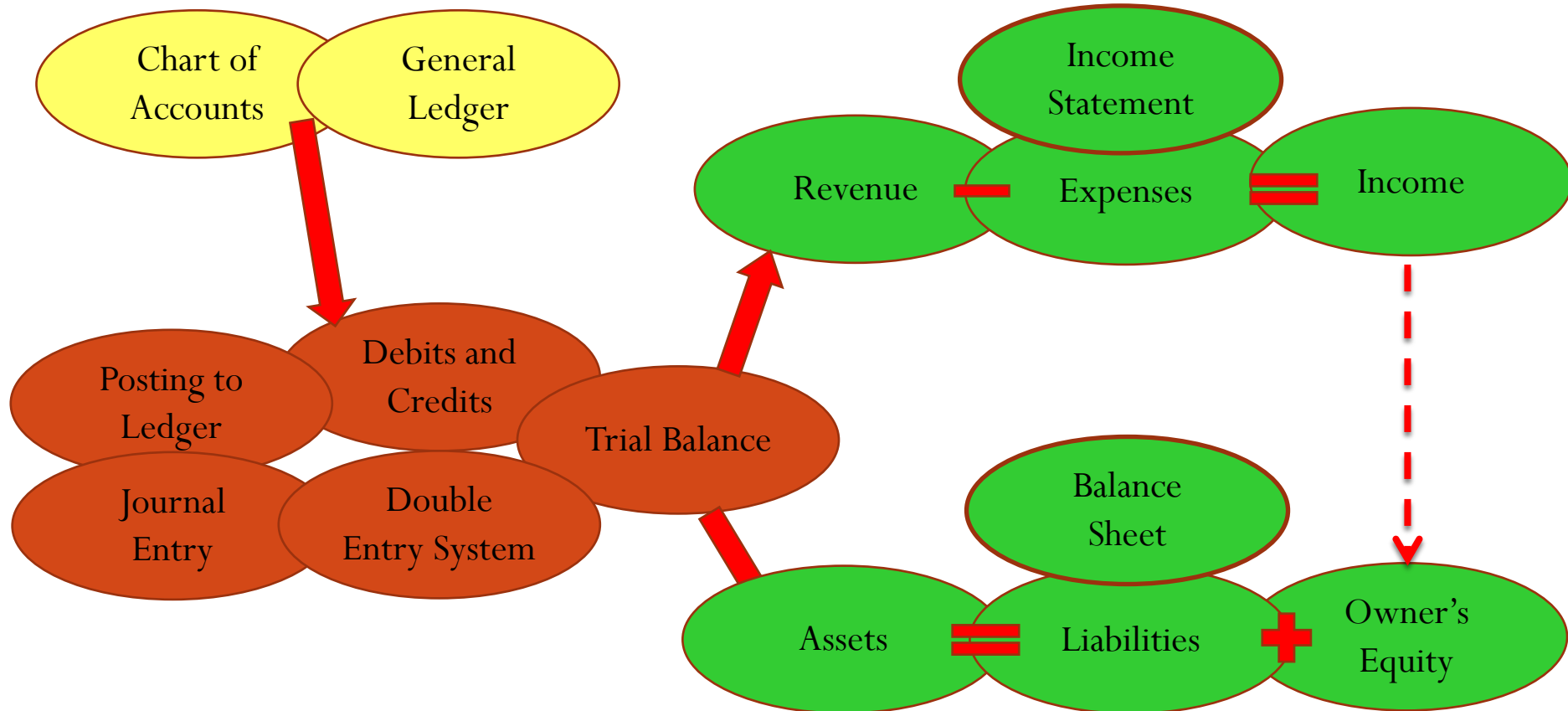
CREDITS

CREDIT BALANCES

CREDITS

DEBITS

# Basics of Accounting Terminology and Concepts



# Basics of Accounting

## Definitions

### Accounting Period

- Period for which a firm prepares its internal or external accounts.
- The period covered by financial statements (month, quarter, 12 months).

### Accrual

- Short term liabilities, which continually occur during an accounting period.
- Wages earned, but not yet paid.

### Various Payroll Journals

- Normal recurring payroll, bonus runs, adjustment runs, specials, manuals checks.

### General Ledger

- Central repository for the accounting information of an organization. It provides the entire data for preparing financial statements.

### Balance Sheet

- Statement that shows the financial position of an entity on a specified date (usually last day of an accounting period).

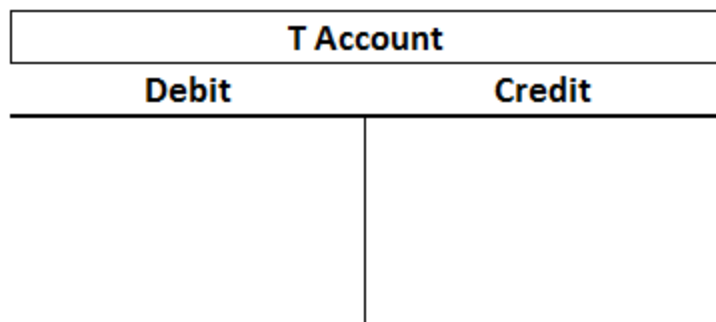
### Income Statement

- A summary of an entity's performance as reflected in the profitability (or lack of it) of an organization over a certain period (month, quarter, 12 months).

# Basics of Accounting

## Debits and Credits

Account Type	Debit	Credit
Asset	Increase	Decrease
Liabilities	Decrease	Increase
Equity / Capital / Net Worth	Decrease	Increase
Income / Revenue	Decrease	Increase
Expenses	Increase	Decrease



Account Normally w/ Debit Balance	Accounts Normally w/ Credit Balance
Assets	Liabilities
Expenses	Owner's Equity
	Revenue



# Basics of Accounting

## Payroll Specific Accounts



### ASSETS

Cash

### LIABILITIES

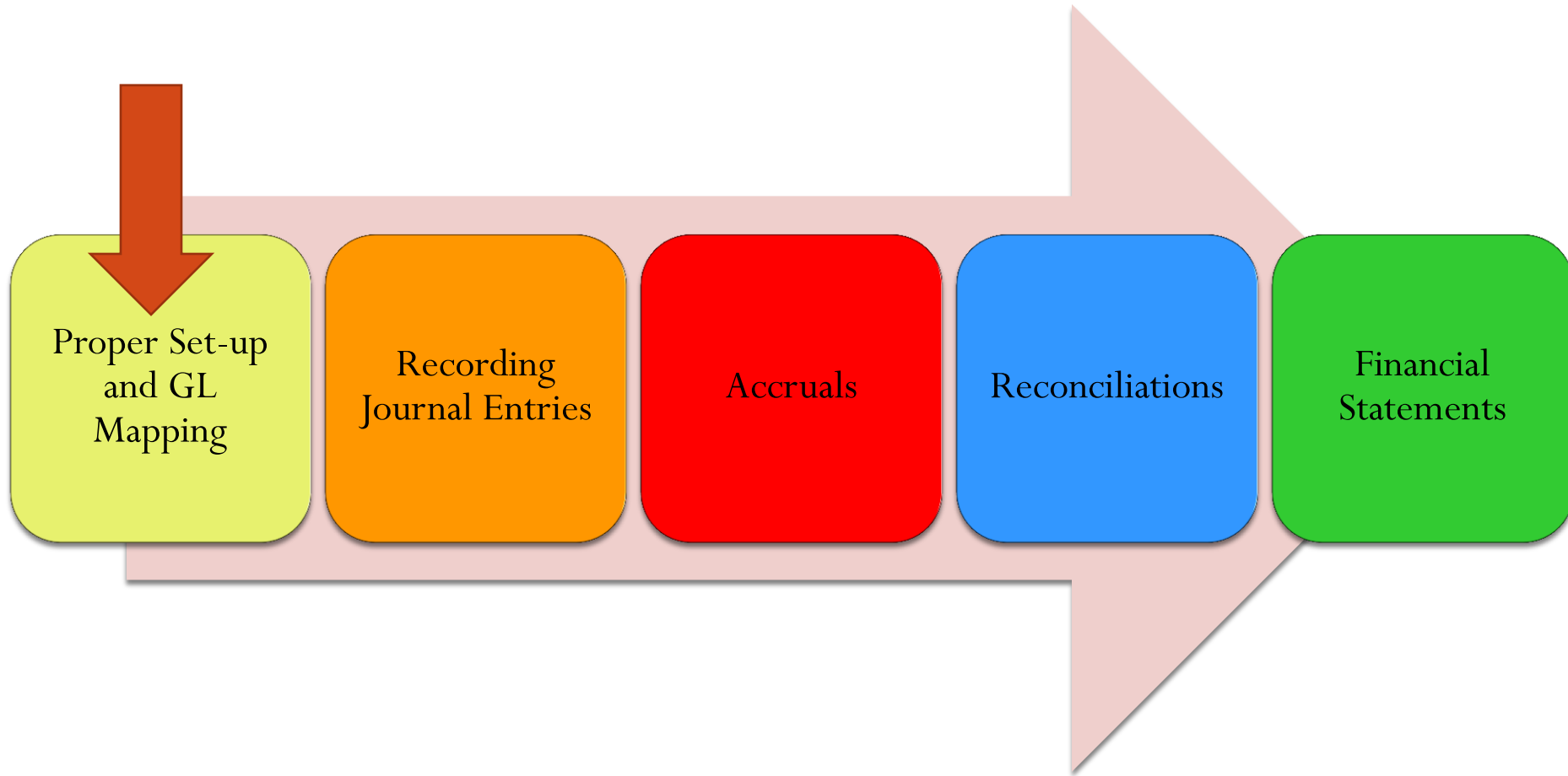
Salary  
Deductions  
EE Taxes  
Withheld

### EXPENSES

Salary Expense  
Variable Comp  
ER Taxes

# Basics of Accounting

## Let's Focus on.....



# Chart of Accounts

Proper Set-up and GL Mapping

Account Type	GL Account Range	Financials	Payroll Specific Accounts
Assets	100000 - 199999	Balance Sheet	Cash Accounts (Payroll Bank Accounts)
Liabilities	200000 - 299999	Balance Sheet	Accrued Salary, Accrued Bonus, Accrued Vacation, Accrued Taxes, 401K Contribution Payable
Equity	300000 - 399999	Balance Sheet	
Revenue	400000 - 499999	Income Statement	
Expenses	500000 - 599999	Income Statement	Salary, Hourly, Overtime, Commissions, Bonus, Fringe

# Income Statement Accounts Payroll Specific

Proper Set-  
up and GL  
Mapping

Payroll Specific Accounts	Payroll Specific Accounts
Salary	Exempt salaried employees, sick, and vacation.
Hourly	Hourly employees, temporary labor, sick and vacation.
Overtime	Overtime, overtime recalculation.
Commissions	Sales commissions.
Bonus	Monthly, quarterly, and annual bonuses, employee incentives.
Fringe	Group health insurance, payroll taxes, auto allowances.

# General Ledger Mapping

Proper Set-up and GL Mapping

Earning or Deduction Code	Description	Debit	Credit	Department	Product Code
100	Salary	Salary Expense GL 510000	Cash GL 100000	00024	1700 (Manager)
FMED Employer	Medicare ER	Tax Expense GL 540000	Cash GL 100000	00024	1700 (Manager)
FMED Employee	Medicare EE	Cash GL 100000	Tax Payable GL 250000	00024	1700 (Manager)
205	Vacation Expense	Vacation Expense GL 510020	Accrued Vacation GL 210020	00024	1700 (Manager)

# Key Controls

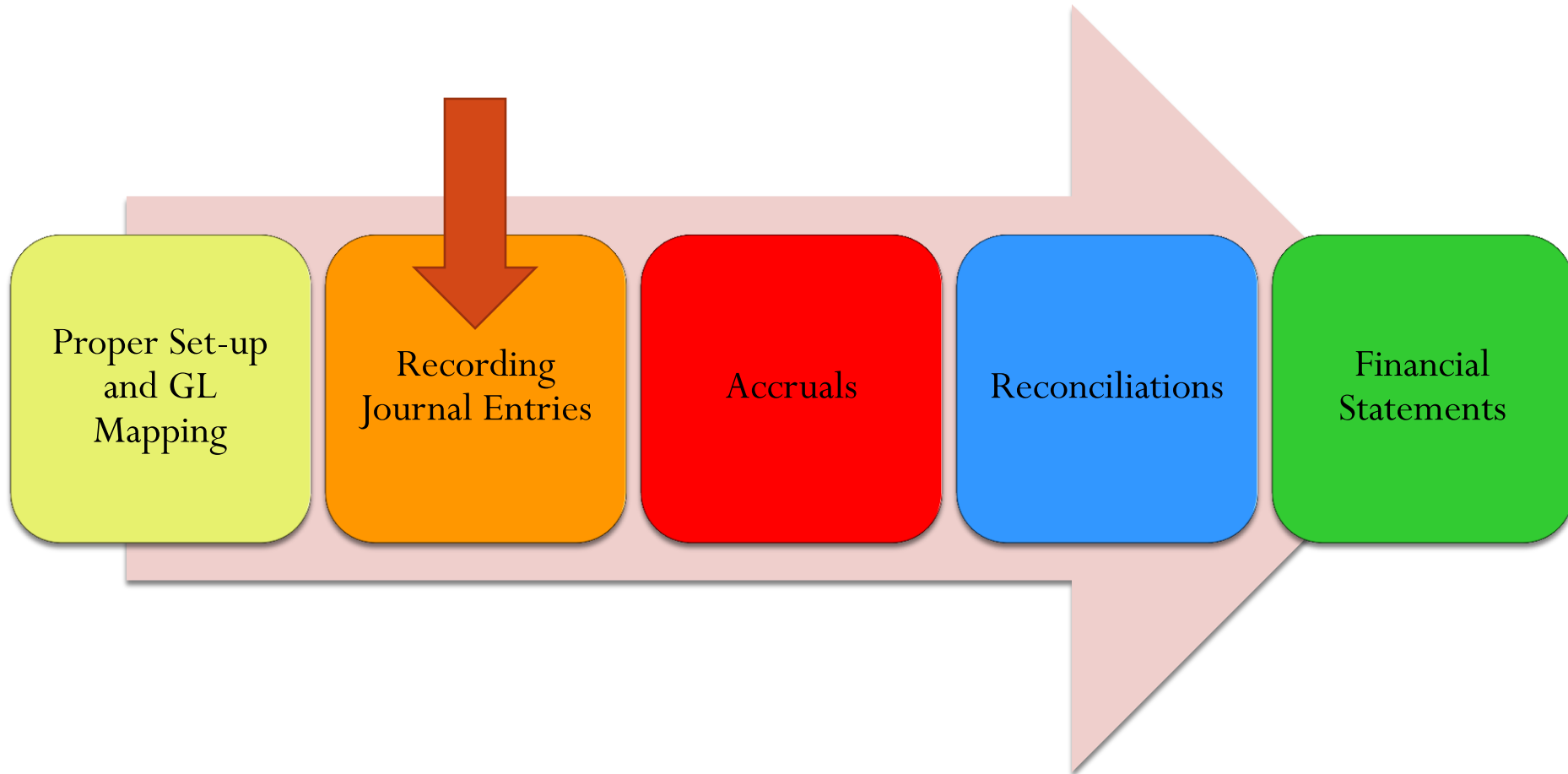
Proper Set-up and GL Mapping

- A formal earning code set-up form could be used that requires approval from both departments.
- A clearing account should be set up to receive any earning codes not set up in the general ledger that should be reviewed and cleared by accounting monthly.
- Earning code and deduction code listing is reviewed annually for proper mapping to the financials as well as W-2 mapping and proper taxation.

**Establish a formal process between Payroll and Accounting to ensure proper mapping.**

# Basics of Accounting

## Let's Focus on.....



# Recording Journal Entries

## Example of Salary Employee

Recording  
Journal  
Entries

- Semi-monthly 1<sup>st</sup> thru 15<sup>th</sup> paid on 25<sup>th</sup>
- Semi-monthly salary \$2,083.33 (\$50K annually)
- Pre-tax health deductions = \$203 per pay period
- 401K of 10% = \$208.33

### Journal Entries

<b>A</b> Debit - Salary Expense	2,083.33	
Credit - Cash		2,083.33
<b>To record pay period salary expense</b>		
<b>B</b> Debit - Cash	203.00	
Credit - Benefits Payable		203.00
<b>To record health deductions</b>		
<b>C</b> Debit - Cash	208.30	
Credit - 401K Payable		208.30
<b>To record 401K deduction</b>		
<b>D</b> Debit - 401K Payable	208.30	
Credit - Cash		208.30
<b>To record payment to 401K administrator</b>		

### T- Accounts

Salary Expense		Benefits Payable	
Debit	Credit	Debit	Credit
<b>A</b> 2,083.33			203.00
<b>2,083.33</b>			<b>203.00</b>
Cash		401K Payable	
Debit	Credit	Debit	Credit
	2,083.33 <b>A</b>		
<b>B</b> 203.00			
<b>C</b> 208.30			208.30 <b>C</b>
	208.30 <b>D</b>	<b>D</b> 208.30	
	<b>1,880.33</b>	-	



# Recording Journal Entries

## Example of Hourly Employee

Recording  
Journal  
Entries

- Semi-monthly 1<sup>st</sup> thru 15<sup>th</sup> paid on 25<sup>th</sup>
- Employee worked 60 hours @ \$10 per hour
- Commissions - \$200
- FICA Employee - \$50 (based on 6.2%)
- FICA Employer - \$50 (based on 6.2%)

### Journal Entries

**A** Debit - Hourly Expense                      600.00  
                     Credit - Cash                                      600.00  
**To record pay period hourly expense**

**B** Debit - Commission Expense              200.00  
                     Credit - Cash                                      200.00  
**To record commissions expense**

**C** Debit - Cash                                      50.00  
                     Credit - Tax Payable                                      50.00  
**To record employee FICA (social security)**

**D** Debit - Payroll Tax Expense              50.00  
                     Credit - Cash                                      50.00  
**To record employer FICA (social security)**

### T- Accounts

Salary Expense		Commision Expense		Payroll Tax Expense	
Debit	Credit	Debit	Credit	Debit	Credit
<b>A</b> 600.00		<b>B</b> 200.00			
<b>600.00</b>		<b>200.00</b>			
				<b>D</b> 50.00	
				<b>50.00</b>	

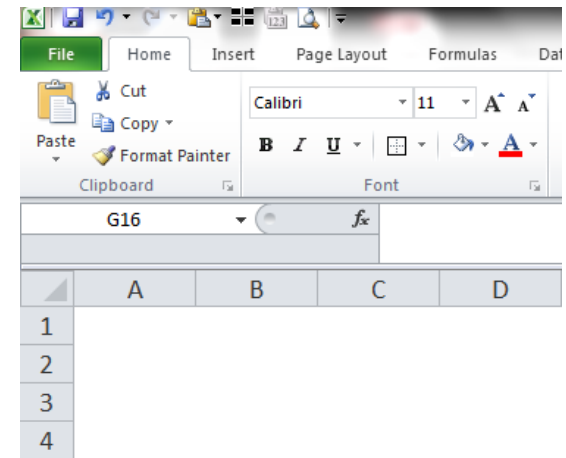
Cash		Tax Payable	
Debit	Credit	Debit	Credit
	600.00 <b>A</b>		
	200.00 <b>B</b>		
<b>C</b> 50.00			50.00 <b>C</b>
	50.00 <b>D</b>		
	<b>800.00</b>		<b>50.00</b>

# Recording Journal Entries

## Key Controls

Recording  
Journal  
Entries

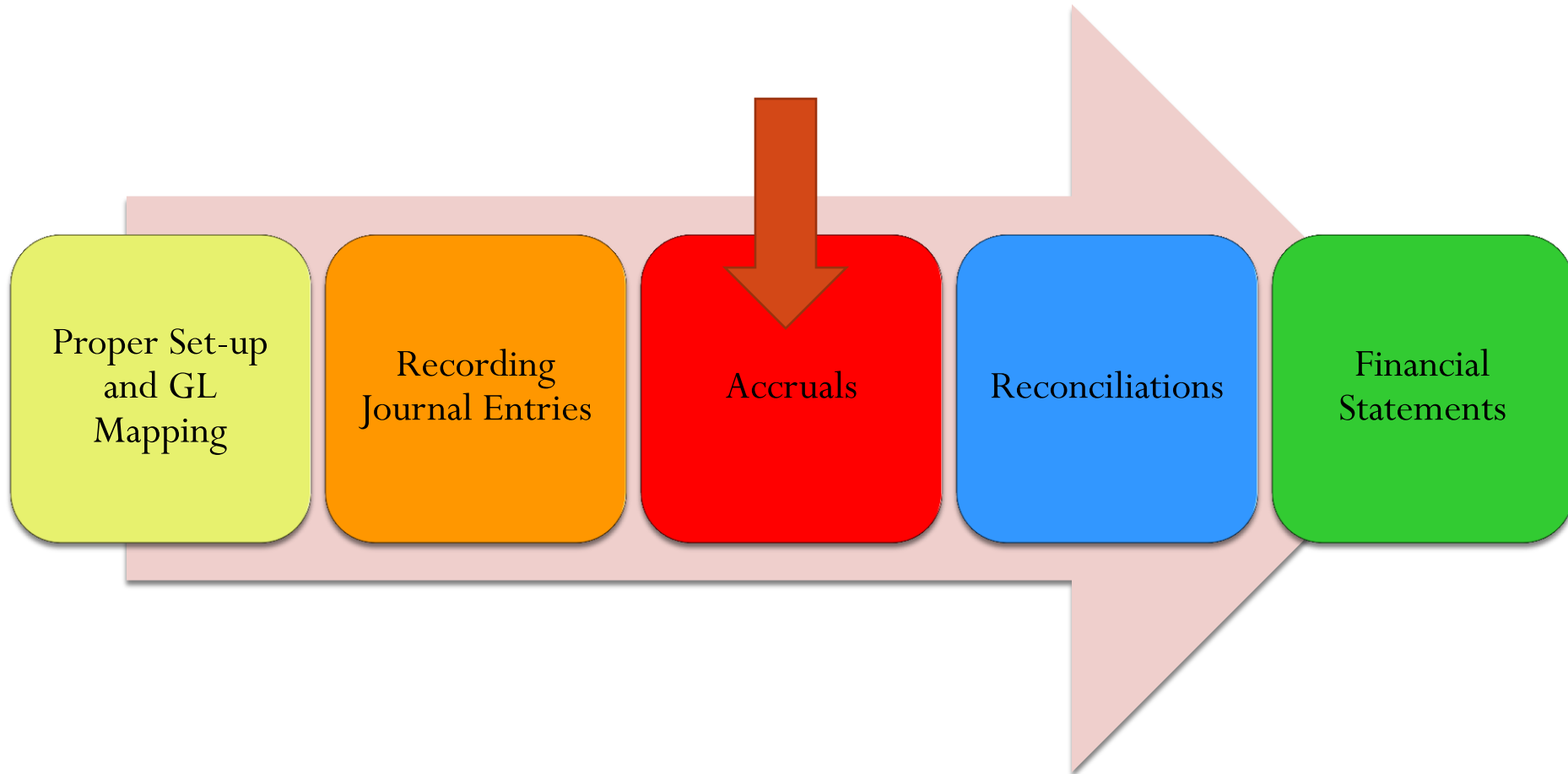
- Excel spreadsheet controls
- Double check direction of debits and credits
- Reconciliation to source files
- Sample reconciliation detail to source files
- Footing and cross footing
- Running totals out of general ledger and comparing trial balance to source or expected outcome
- Manager review of journal entry and source



**Cross functional review of spreadsheets may be a good way to ensure both Payroll and Accounting teams are on the same page.**

# Basics of Accounting

## Let's Focus on.....



# Calendar

## Semi-Monthly versus Bi-Weekly

### SEMI-MONTHLY

Sun	Mon	Tues	Wed	Thurs	Fri	Sat	
		1	2	3	4	5	April
6	7	8	9	10	11	12	
13	14	15	16	17	18	19	
20	21	22	23	24	25	26	Pay Period 4/1 to 4/15 paid 4/25
27	28	29	30	1	2	3	May
4	5	6	7	8	9	10	
11	12	13	14	15	16	17	Pay Period 4/16 to 4/30 paid 5/9
18	19	20	21	22	23	24	
25	26	27	28	29	30	31	

### BI-WEEKLY

Sun	Mon	Tues	Wed	Thurs	Fri	Sat	
		1	2	3	4	5	April
6	7	8	9	10	11	12	
13	14	15	16	17	18	19	
20	21	22	23	24	25	26	Pay Period 4/5 to 4/18 paid 4/25
27	28	29	30	1	2	3	May
4	5	6	7	8	9	10	Pay Period 4/19 to 5/2 paid 5/9
11	12	13	14	15	16	17	
18	19	20	21	22	23	24	
25	26	27	28	29	30	31	

# Salary Accruals

Accruals

## SEMI-MONTHLY

Sun	Mon	Tues	Wed	Thurs	Fri	Sat
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

## BI-WEEKLY

Sun	Mon	Tues	Wed	Thurs	Fri	Sat
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

Pay Period	Payday	Accounting Treatment
4/1 thru 4/15	4/25	Record actuals (debit salary expense / credit cash)
4/16 thru 4/30	5/9	Accrue 4/16 thru 4/30 (debit salary expense / credit salary payable)

Pay Period	Payday	Accounting Treatment
Ending 4/4	4/11	Record actuals (debit salary expense / credit cash)
Ending 4/18	4/25	Record actuals (debit salary expense / credit cash)
Ending 5/2	5/9	Accrue 4/19 thru 4/30 (debit salary expense / credit salary payable)

# Salary Accrual Calculation

Accruals

## SEMI-MONTHLY

Sun	Mon	Tues	Wed	Thurs	Fri	Sat
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

- \$50K annual salary
- Semi-monthly salary \$2,083.33
- Record actual salary expense for 4/1 thru 4/15 of **\$2,083.33**
- Accrue **\$2,083.33** for salary expense 4/16 thru 4/30 that does not pay until 5/9
- Total salary of **\$4,166.67** for April

## BI-WEEKLY

Sun	Mon	Tues	Wed	Thurs	Fri	Sat
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

Annual Salary	\$50,000.00
# of Paydays in a Year	26
Gross Pay Per Pay Period	\$ 1,923.08
Daily Gross Pay (based 10 business days)	\$ 192.31

- \$50K annual salary
- Bi-weekly salary \$1,923.08
- Record actual salary expense for 4/1 thru 4/18 of **\$2,692.34**  
(14 business days time \$192.31)
- Accrue 4/19 thru 4/30 of **\$1,538.48**  
(8 business days times \$192.31)
- Total salary expense of **\$4,230.82**

# Salary T Accounts and Reversing Accruals

Accruals

## April Journal Entries

**A** Debit - Salary Expense                      2,083.33  
       Credit - Cash                                      2,083.33  
 To record actual pay period salary 4/1 thru 4/15 (paid 4/25)

**B** Debit - Salary Expense                      2,083.33  
       Credit - Salary Payable                      2,083.33  
 To accrue pay period salary 4/16 thru 4/30

## May Journal Entries

**C** Debit - Salary Payable                      2,083.33  
       Credit - Salary Expense                      2,083.33  
 Reversing entry for 4/16 thru 4/30 accrual

**D** Debit - Salary Expense                      2,083.33  
       Credit - Cash                                      2,083.33  
 To record actual pay period 4/16 thru 4/30 (paid on 5/9)

## SEMI-MONTHLY

Sun	Mon	Tues	Wed	Thurs	Fri	Sat
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

Salary Expense		Cash		Salary Payable	
Debit	Credit	Debit	Credit	Debit	Credit
<b>A</b> 2,083.33			2,083.33 <b>A</b>		
<b>B</b> 2,083.33					2,083.33 <b>B</b>
	2,083.33 <b>C</b>			2,083.33 <b>C</b>	
<b>D</b> 2,083.33			2,083.33 <b>D</b>		

# Other Accruals

## Accruals

- Hourly employees are accrued based on actual hours worked during the calendar month
- Daily commissions are accrued as earned by employee (expense incurred by employer) in a calendar month
- Monthly, quarterly, annual bonuses are accrued as earned by the employee per the compensation plan
- Employer payroll taxes earned are accrued based on rates that are going to be used when paid
- Accrue vacation as it is earned
- Any other items where the company has incurred an expense, but will be paid in future periods (i.e. severances, sign on bonuses)

### Accrual TIPS

#### Gross Up

When trips and prizes are includable in gross income and company pays for taxes

#### Payroll Taxes

At year end, need to consider that tax rates will reset and will need to accrue based on higher tax rates.

#### Vacation

When vacation is used there is no income statement effect



# Trips and Prizes / Gross Up Calculation

Accruals

## Gross Up Calculation

### Assumptions

Value of Prize	\$ 5,000	<b>A</b>
Tax Rate	40.25%	<b>B</b>

### Gross Up Formula to Calculate Gross Amount

Value of Prize / (1 - Tax Rate)	\$ 8,368	<b>A / (1-B)</b>
Payroll Taxes	\$ 3,368	<b>C - A = D</b>

### Summary

Value	\$ 5,000	<b>A</b>
Payroll Taxes	\$ 3,368	<b>D</b>
Total Gross	\$ 8,368	<b>C</b>

### Components of Tax Rate

EE Federal Supplemental Tax Rate	25.00%
State Supplemental Tax Rate (Varies by State)	6.60%
EE FICA	6.20%
EE FMED	1.45%
CA SDI	1.00%
	<hr/> 40.25%

### Gross Up

When trips and prizes  
are includable in gross  
income and company  
pays for taxes

# Recording Journal Entries

## Key Controls

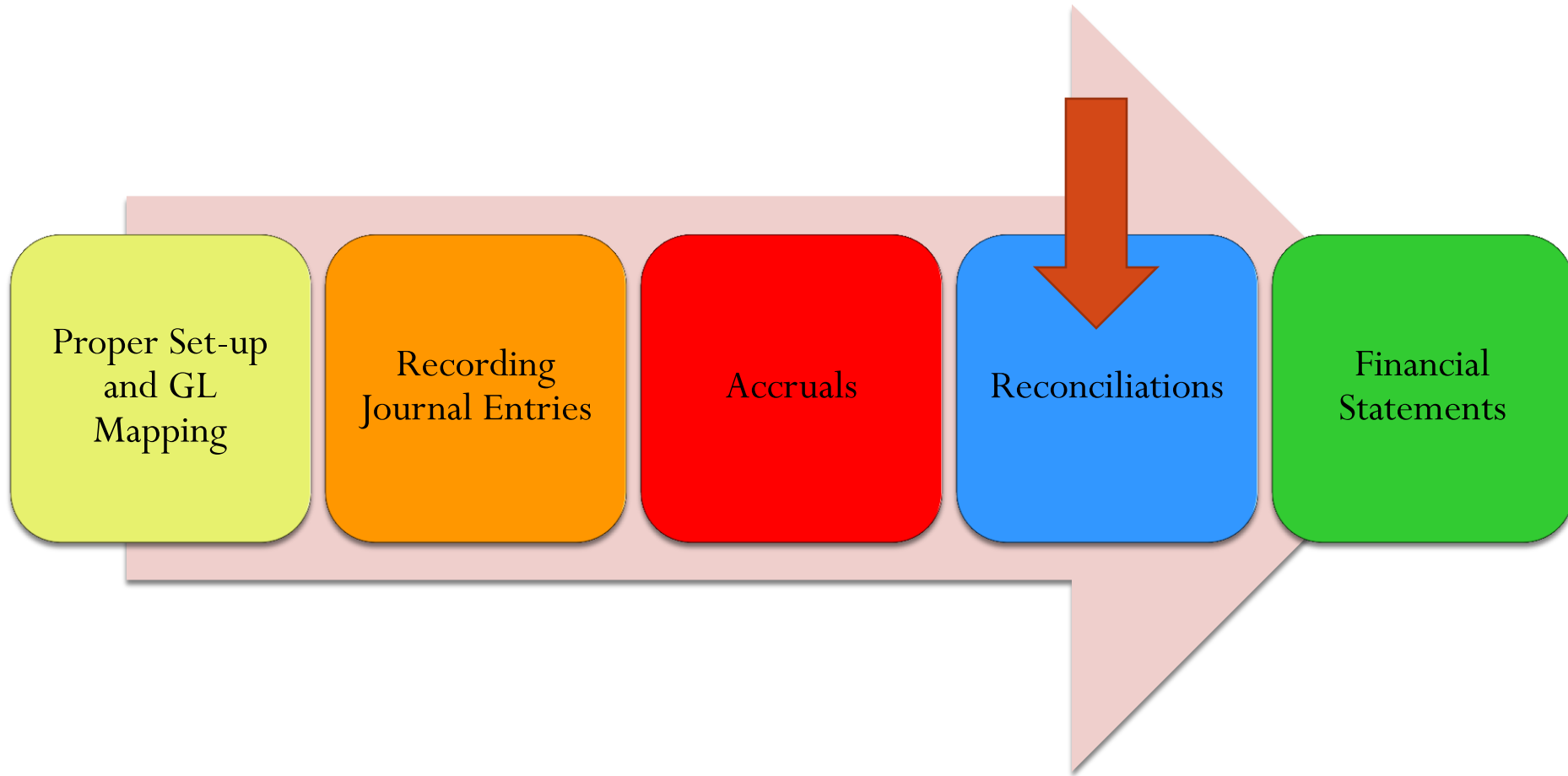
Accruals

- Accounting and Payroll meet monthly to discuss checklist of items to ensure changes and new items are appropriately accounted for.
  - Comp plan changes or exceptions
  - System issues, upgrades, changes
  - Sales Contests
  - Accounting changes (i.e. new accounts, new reporting)
- Accounting, Payroll, and Business Owners meet quarterly to discuss any items that may need to be accrued for to ensure completeness and accuracy.
  - Confirmation e-mail is sent to Payroll and Business Owners to confirm that they have communicated all relevant labor items

**Upfront communication and front end discussions and processes save a lot of pain and energy spent on damage control on the back end.**

# Basics of Accounting

## Let's Focus on.....



# Reconciliations

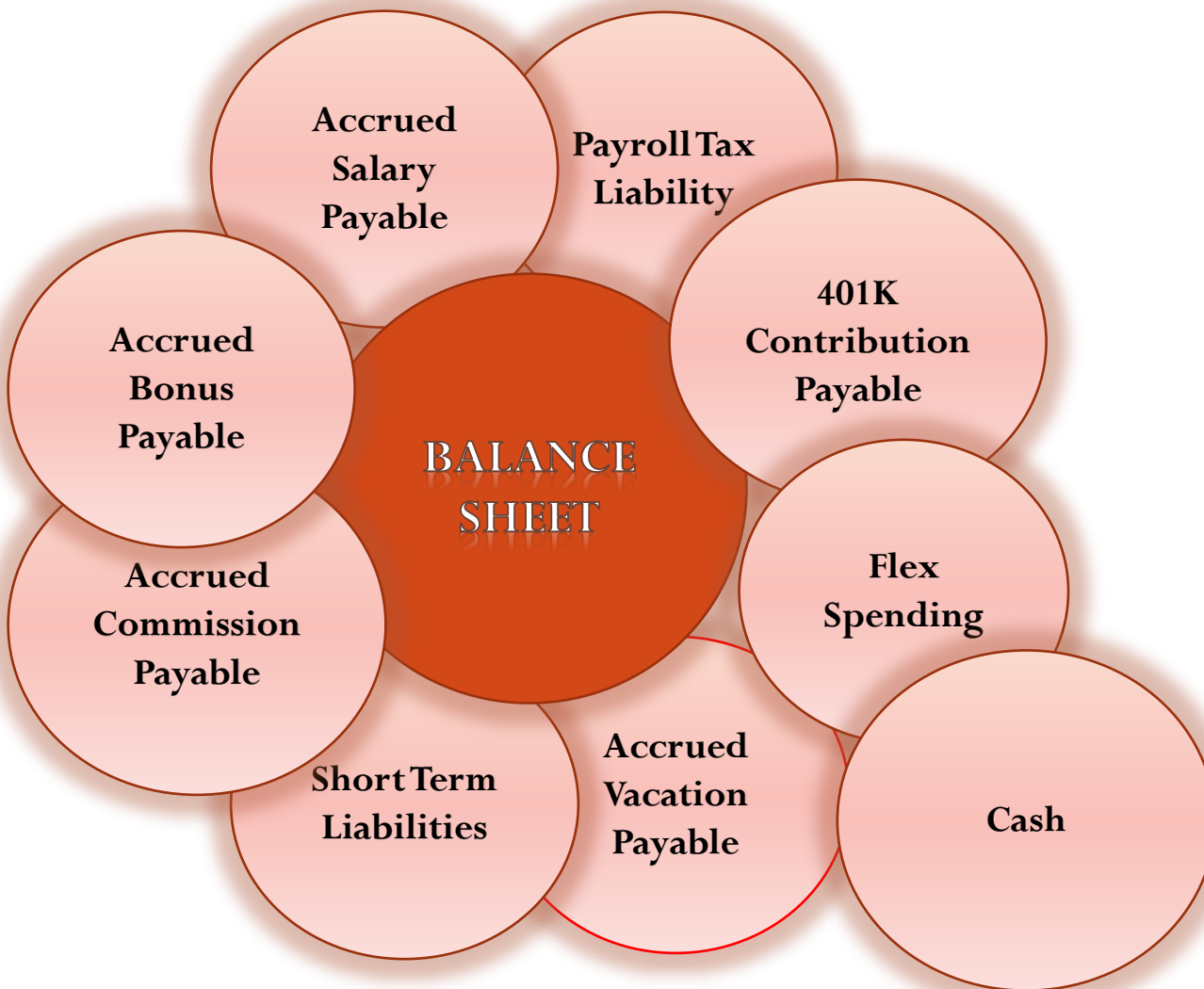
## Key Controls

### Reconciliations

Category	Objective	Key Control
T&L Data	T&L Export is accurately calculating.	<b>T&amp;L Export Coding Calculation</b> is reviewed and tested monthly to ensure accuracy.
Payroll Data Processing	All pay data entered into the payroll system is complete.	After importing interface files into the payroll system (i.e. commissions, bonus, T&L, T&E, benefits, etc.), <b>Payroll reconciles approved source interface files</b> to the payroll batches.
Payroll Review	Payroll is accurately calculated.	Each pay period a <b>trend analysis for all earning and deduction codes</b> is created and reviewed.
Vacation Accrual	Ensure vacation accrual is accurate.	Review the <b>PTO to GL vacation accrual report</b> each pay period.
Payroll Taxes	Payroll tax rates are accurate.	Review the <b>payroll tax trends, state forms, tax schedules and the reconciliations</b> of these items to the payroll system reports and deposit.
Accounting	Payroll runs received from the payroll system is complete.	The <b>reconciliation</b> between the advice of debit per <b>the payroll system report and the general ledger</b> is reviewed.

# Reconciliations

## Reconciliations



- Performed after month end
- Confirm all entries have been posted
- Verify all expenses are booked accurately and reconcile to payroll source data and general ledger
- Identify differences and/or unusual balances and investigate
- Clear clearing accounts

# Reconciliations

## Accrued Vacation

Reconciliations

Accrued  
Vacation  
Payable

### Accrued Vacation Payable Account #210020 August 31, 2012

ITEM DESCRIPTION	07/31/12 Balance	Accruals	Payments/ Usage	08/31/12 Balance
<b>Balance General Ledger</b>				
United States, Inc.	(6,000)	(900)	1,000	(5,900)
<b>TOTAL</b>	<b>(6,000)</b>	<b>(900)</b>	<b>1,000</b>	<b>(5,900)</b>

Debit - Vacation Expense 900  
Credit - Accrued Vacation Payable 900  
To record vacation expense for August 2012

Debit - Accrued Vacation Payable 1,000  
Credit - Cash 1,000  
To record vacation usage for August 2012

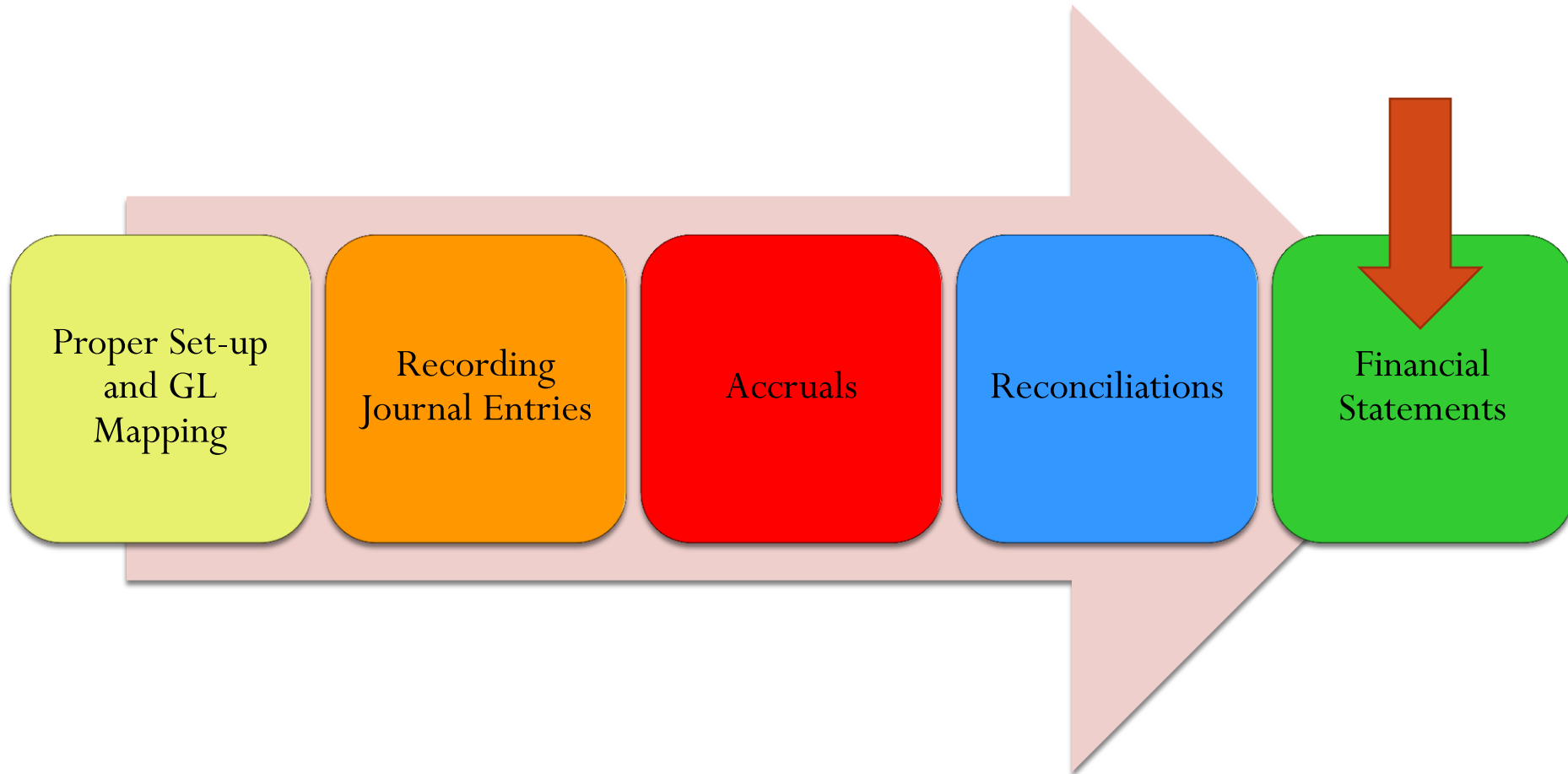
### Key Controls

- Reconcile to Payroll system
- Review detailed activity and sample test (i.e. vacation revaluation)
- Reconcile to GL
- Create trend analysis to show seasonality

Vacation Expense		Cash		Accrued Vacation	
Debit	Credit	Debit	Credit	Debit	Credit
900					6,000
					900
		1,000		1,000	
					5,900

# Basics of Accounting

## Let's Focus on.....



# Financial Statements Review and Analysis

Financial Statements

## Actual Versus Budget

	January		February		March		April		May		June	
	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget
Salary	\$ 1,000	\$ 1,000	\$1,000	\$1,000	\$ 1,010	\$ 1,010	\$ 910	\$1,010	\$1,010	\$1,010	\$1,010	\$1,010

## As a Percentage of Net Revenue

	January	February	March	April	May	June
Revenue	\$10,000	\$12,000	\$9,000	\$7,000	\$12,000	\$10,000
Commissions	\$ 900	\$ 1,200	\$ 900	\$ 600	\$ 1,200	\$ 1,500
Comm as % of Rev	9%	10%	10%	9%	10%	15%

## Trend Analysis or Detail Drill

Pay Period Ending	4/15	4/30	5/15	5/31
Overtime	\$ 30	\$ 20	\$ 30	\$ 90
Bonus	\$ 1,500	\$ -	\$1,200	\$ -

## Different methods to review and analyze


- Variance analysis
- Drill on detail
- Explain all unusual items
- Explain activity; challenge explanations that do not make sense
- Understand comp plans
- Understand business activity; corroborate
- Compare to forecast



# Financial Statements

## Year End Procedures / Audit

Financial  
Statements

- Ensure all reconciliation between the Payroll system and the GL are complete
- Estimated accrual for salary would typically relate to end of December
- Other accruals items earned not yet paid (i.e. annual bonuses)
- Payroll taxes reset for the new year and need to be accrued for based on new reset tax rates
- Review and test  for the new year

**Payroll maintains a year end checklist, including a log of unusual activities that have taken place throughout the year to ensure complete and accurate recording in the GL as well as W-2s.**



## CALIFORNIA PAYROLL CONFERENCE 2014 A WEALTH OF KNOWLEDGE

Thank you for your attention



Julius Soriano

juliusSD