



Payroll Accounting

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2017 CPP Study Group



GAAP Generally Accepted Accounting Principles

Business Entity Concept—Personal transactions kept separate from business transactions

Continuing Concern Concept—On-going business with assets valued at cost, not a business for sale with assets valued at FMV

Time Period Concept—Fiscal Year may, or may not, coincide with Calendar Year

Cost Principle—Assets valued at cost minus depreciation since this is an on-going business concern

Objectivity Principle—Assets are valued without respect to personal opinions or emotions

Matching Principle—Expenses and revenue are recorded in the period in which they are spent or earned

Realization Principle—Revenue is recognized (or realized) when earned

Consistency Principle—Transactions must be recorded in a consistent manner

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Double Entry Bookkeeping

Assets - Liabilities = Owner's Equity

OR





Assets = Liabilities + Owner's Equity

•3





Types of Accounts

Assets - property of the company or what the company owns

Liabilities – what the company owes to others **Equity** – what the sole proprietor, partners, or shareholders can claim as theirs; contributed capital and retained earnings

Revenue – what the company earns from sales of goods or services for the owner(s)

Expenses – the cost to the owner(s) to make the

goods or provide the services

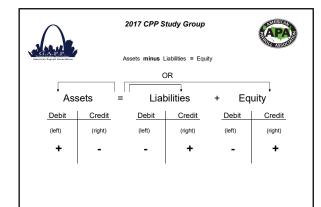


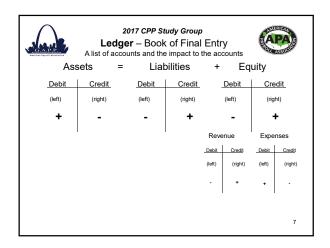
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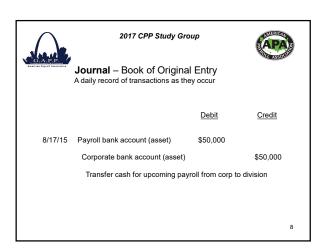


T-Accounts

Debit	Credit
(left)	(right)







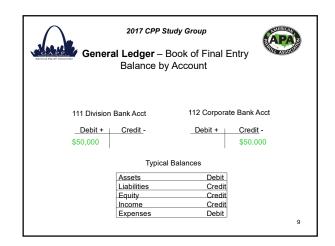




Chart of Accounts



Asset Accounts 100s Liability Accounts 200s Equity Accounts 300s Revenue Accounts 400s Expense Accounts 500s

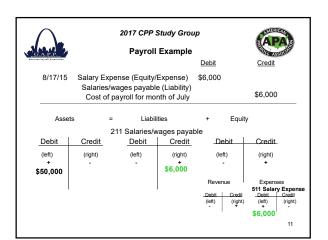
11x Current Assets
12x Long-term Investments
13x Plant, Property, and Equipment
14x Intangible Assets

111 Cash 112 Accounts Receivable 113 Inventory

 Bus Unit
 Division
 FDC
 Dept
 Expense

 008
 011
 42
 0214
 6010

10



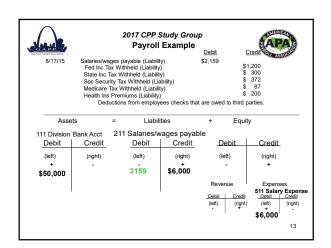


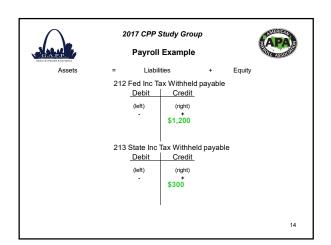
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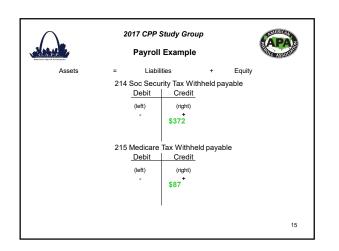


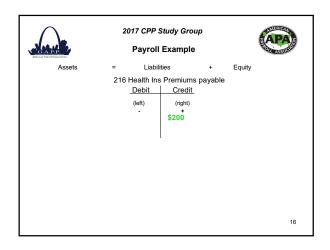
Amount of EE's Pay Owed to Others

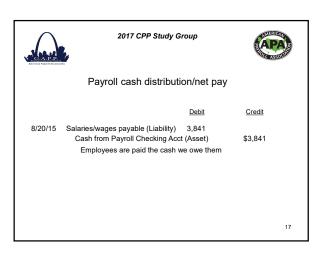
		<u>Debit</u>	<u>C</u>	redit	
8/17/15	Salaries/wages payable (Liability)	2,159			
	Fed Inc Tax Withheld (Liability)		\$1	1,200	
	State Inc Tax Withheld (Liability)		\$	300	
	Soc Security Tax Withheld (Liabili	ty)	\$	372	
	Medicare Tax Withheld (Liability)		\$	87	
	Health Ins Premiums (Liability)		\$	200	
	Deductions from employees che	ecks that	are owed to	n third na	rties

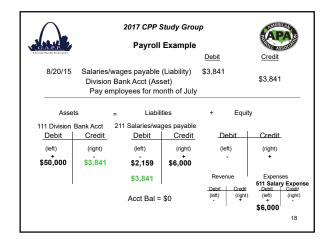












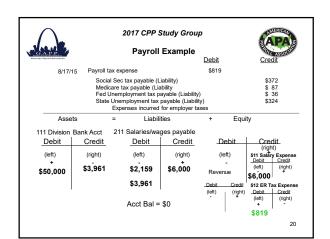




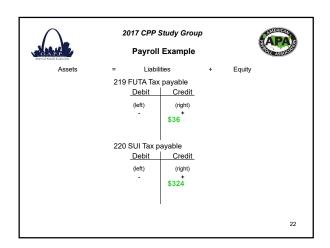
Employer's tax liabilities; an expense of doing business

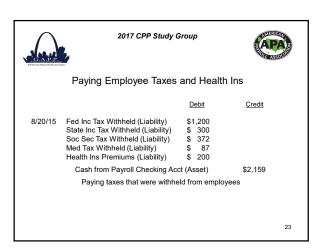
		<u>Debit</u>	Credit
8/17/15	ER Payroll tax expense	\$819	
	Social Sec tax payable (Liab	oility)	\$372
	Medicare tax payable (Liabil	ity	\$ 87
	Fed Unemployment tax pays	able (Liability)	\$ 36
	State Unemployment tax pa	yable (Liability)	\$324

Expenses incurred for employer taxes

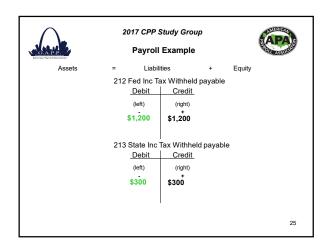


Acution Papell Institution	2017 CPP Study Group Payroll Example	APA
Assets	= Liabilities +	Equity
	217 ER SS Tax payable Debit Credit (left) (right)	
	\$372	
	218 ER Medicare Tax payable	
	Debit Credit	
	(left) (right)	
	\$87	
	l	
		21

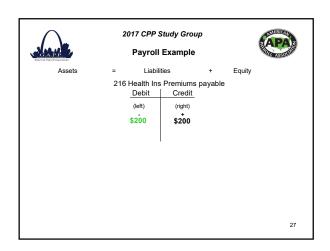


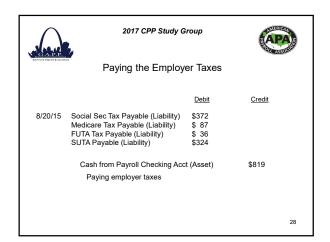


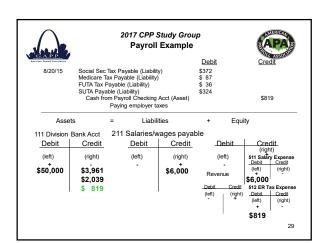
	2017 CPP Study Group Payroll Example				APA S
8/20/15	State Inc Ta Soc Sec Ta	: Withheld (Liability) ax Withheld (Liability x Withheld (Liability	r)	Debit \$1,200 \$ 300 \$ 372	Credit
	Health Ins	ithheld (Liability) Premiums (Liability) om Payroll Checkin Paying taxes th	a Acct (Asset)	\$ 87 \$ 200 d from employees	\$2,159
Assets	s	= Liabil	ities	+ Equi	ity
		211 Salaries/v	vages payal	ble	
Debit	Credit	Debit	Credit	Debit	Credit (right)
(left) \$50,000	(right) - \$3,961	(left)	(right) * \$6,000	(left) - Revenue	511 Salary Expense Debit Credit (left) (right)
	\$2,159		\$3,961	Debit Credit (left) (right)	\$6,000 512 ER Tax Expense Debit Credit (left) (right) + -
					\$831

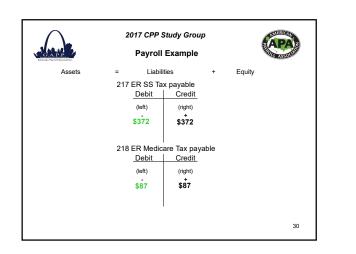


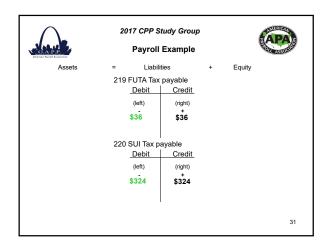


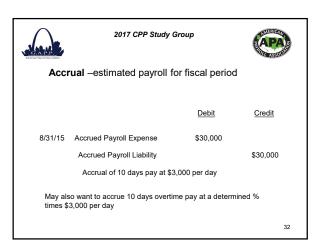


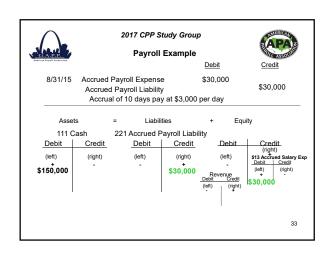


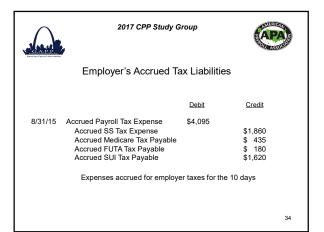


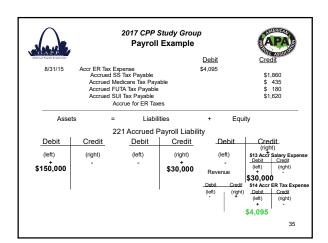


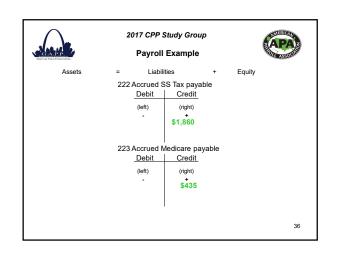


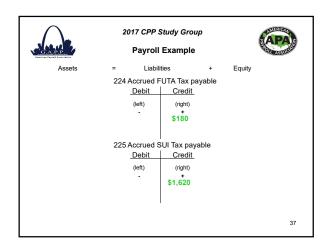


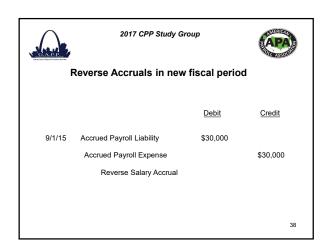


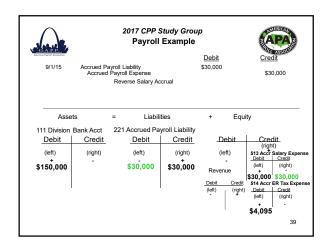












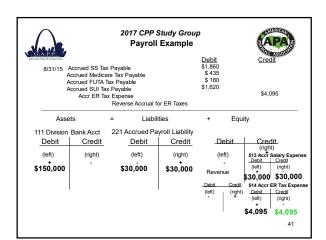




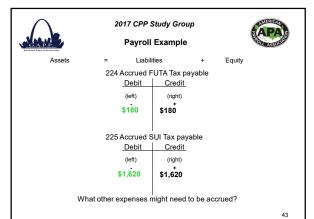
Reverse employer's accrued tax liabilities

		Debit	Credit
9/1/15	Accrued SS Tax Payable Accrued Medicare Tax Payable Accrued FUTA Tax Payable Accrued SUI Tax Payable Payroll tax expense	\$1,860 \$ 435 \$ 180 \$1,620	\$4,095

Reverse expenses accrued for employer tax liability



Analysis Symil Analysis	2017 CPP S	APA &		
Assets	= Liabili	ities +	Equity	
	222 Accrued S Debit	SS Tax payable Credit		
	(left)	(right)		
	\$1, 8 60	\$1,860		
	223 Accrued N	 //edicare payable		
	Debit	Credit		
	(left)	(right)		
	\$435	\$435		
				42







Financial Statements

Balance Sheet—Value of a business at a specific point in time, generally the period end date (specific date in time)

Assets, Liabilities, Equity (Revenue & Expenses)

Income Statement—Summarizes revenue and expenses for a period of time (example: the month of July 2017)

Income, Expenses, Retained Earnings, Contributed Capital

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Internal Controls

Segregation of duties

Rotation of job duties

Check distribution

Negative deductions

Secure blank check stock

Time and salary change approvals

Internal auditors





Sarbanes-Oxley Compliance

Publicly traded companies
CEO and CFO certifications
Complaint procedures established
No loans to officers or directors
Payroll's roll in SOX
Develop process and workflow maps
Create written documentation
Audit recordkeeping and retention
Identify and communicate gaps and risks
Prepare action plans, when needed
Monitor progress of action plans
Monitor outsourcing companies
SAS 70 Type I and II

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Controlling Check Fraud

Group 1 Security - manufactured into the check paper

Group 2 Security - printed onto the paper

Group 3 Security – also called "Positive Pay"; bank sponsored electronic data checking; most effective but also most costly

