



2017 CPP Study Group




Payroll Accounting

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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

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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)

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Assets minus Liabilities = Equity

OR


Assets	=	Liabilities	+	Equity																		
<table border="1" style="margin: 0 auto;"> <tr> <td style="padding: 2px;">Debit</td> <td style="padding: 2px;">Credit</td> </tr> <tr> <td style="padding: 2px;">(left)</td> <td style="padding: 2px;">(right)</td> </tr> <tr> <td style="padding: 2px;">+</td> <td style="padding: 2px;">-</td> </tr> </table>	Debit	Credit	(left)	(right)	+	-		<table border="1" style="margin: 0 auto;"> <tr> <td style="padding: 2px;">Debit</td> <td style="padding: 2px;">Credit</td> </tr> <tr> <td style="padding: 2px;">(left)</td> <td style="padding: 2px;">(right)</td> </tr> <tr> <td style="padding: 2px;">-</td> <td style="padding: 2px;">+</td> </tr> </table>	Debit	Credit	(left)	(right)	-	+		<table border="1" style="margin: 0 auto;"> <tr> <td style="padding: 2px;">Debit</td> <td style="padding: 2px;">Credit</td> </tr> <tr> <td style="padding: 2px;">(left)</td> <td style="padding: 2px;">(right)</td> </tr> <tr> <td style="padding: 2px;">-</td> <td style="padding: 2px;">+</td> </tr> </table>	Debit	Credit	(left)	(right)	-	+
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-	+																					

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Ledger – Book of Final Entry
 A list of accounts and the impact to the accounts




Assets = Liabilities + Equity

<u>Debit</u>	<u>Credit</u>	<u>Debit</u>	<u>Credit</u>	<u>Debit</u>	<u>Credit</u>
(left)	(right)	(left)	(right)	(left)	(right)
+	-	-	+	-	+


<u>Revenue</u>		<u>Expenses</u>	
<u>Debit</u>	<u>Credit</u>	<u>Debit</u>	<u>Credit</u>
(left)	(right)	(left)	(right)
-	+	+	-

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Journal – Book of Original Entry
 A daily record of transactions as they occur




	<u>Debit</u>	<u>Credit</u>
8/17/15 Payroll bank account (asset)	\$50,000	
Corporate bank account (asset)		\$50,000
Transfer cash for upcoming payroll from corp to division		

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General Ledger – Book of Final Entry
 Balance by Account




	<u>Debit +</u>	<u>Credit -</u>		<u>Debit +</u>	<u>Credit -</u>
111 Division Bank Acct	\$50,000		112 Corporate Bank Acct		\$50,000

Typical Balances


Assets	Debit
Liabilities	Credit
Equity	Credit
Income	Credit
Expenses	Debit

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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

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Payroll Example




	<u>Debit</u>	<u>Credit</u>
8/17/15 Salary Expense (Equity/Expense)	\$6,000	
Salaries/wages payable (Liability)		\$6,000
Cost of payroll for month of July		

Assets		=	Liabilities		+	Equity	
			211 Salaries/wages payable				
<u>Debit</u>	<u>Credit</u>		<u>Debit</u>	<u>Credit</u>		<u>Debit</u>	<u>Credit</u>
(left)	(right)		(left)	(right)		(left)	(right)
+	-		-	+		-	+
\$50,000	-		-	\$6,000		-	+


Revenue		Expenses	
<u>Debit</u>	<u>Credit</u>	<u>Debit</u>	<u>Credit</u>
(left)	(right)	(left)	(right)
-	+	-	+
-	+	511 Salary Expense	-
-	+	-	\$6,000

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Amount of EE's Pay Owed to Others



	<u>Debit</u>	<u>Credit</u>
8/17/15 Salaries/wages payable (Liability)	2,159	
Fed Inc Tax Withheld (Liability)		\$1,200
State Inc Tax Withheld (Liability)		\$ 300
Soc Security Tax Withheld (Liability)		\$ 372
Medicare Tax Withheld (Liability)		\$ 87
Health Ins Premiums (Liability)		\$ 200


Deductions from employees checks that are owed to third parties.

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Payroll Example



8/17/15


Salaries/wages payable (Liability)	Debit	\$2,159	Credit	
Fed Inc Tax Withheld (Liability)				\$1,200
State Inc Tax Withheld (Liability)				\$ 300
Soc Security Tax Withheld (Liability)				\$ 372
Medicare Tax Withheld (Liability)				\$ 87
Health Ins Premiums (Liability)				\$ 200

Deductions from employees checks that are owed to third parties.

Assets		=	Liabilities		+	Equity	
	Bank Acct			211 Salaries/wages payable			
Debit	Credit		Debit	Credit		Debit	Credit
(left)	(right)		(left)	(right)		(left)	(right)
+	-		-	+		-	+
\$50,000	-		2159	\$6,000			


Revenue		=	Expenses	
				511 Salary Expense
Debit	Credit		Debit	Credit
(left)	(right)		(left)	(right)
-	+		-	+
			\$6,000	

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Payroll Example




Assets = Liabilities + Equity

	212 Fed Inc Tax Withheld payable						
Debit	Credit		Debit	Credit		Debit	Credit
(left)	(right)		(left)	(right)		(left)	(right)
-	+		-	+		-	+
	\$1,200						


	213 State Inc Tax Withheld payable						
Debit	Credit		Debit	Credit		Debit	Credit
(left)	(right)		(left)	(right)		(left)	(right)
-	+		-	+		-	+
	\$300						

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Payroll Example




Assets = Liabilities + Equity

	214 Soc Security Tax Withheld payable						
Debit	Credit		Debit	Credit		Debit	Credit
(left)	(right)		(left)	(right)		(left)	(right)
-	+		-	+		-	+
	\$372						


	215 Medicare Tax Withheld payable						
Debit	Credit		Debit	Credit		Debit	Credit
(left)	(right)		(left)	(right)		(left)	(right)
-	+		-	+		-	+
	\$87						

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Payroll Example




Assets = Liabilities + Equity


216 Health Ins Premiums payable

Debit	Credit
(left)	(right)
-	<div style="text-align: center;">+</div> <div style="text-align: center;">\$200</div>

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Payroll cash distribution/net pay


		<u>Debit</u>	<u>Credit</u>
8/20/15	Salaries/wages payable (Liability)	3,841	
	Cash from Payroll Checking Acct (Asset)		\$3,841
	Employees are paid the cash we owe them		

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Payroll Example



		<u>Debit</u>	<u>Credit</u>
8/20/15	Salaries/wages payable (Liability)	\$3,841	
	Division Bank Acct (Asset)		\$3,841
	Pay employees for month of July		


	<u>Debit</u>	<u>Credit</u>		<u>Debit</u>	<u>Credit</u>		<u>Debit</u>	<u>Credit</u>
Assets	(left)	(right)	=	Liabilities	(left)	(right)	+	Equity
111 Division Bank Acct				211 Salaries/wages payable				
	+							

\$50,000
 - |




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Employer's tax liabilities; an expense of doing business




	<u>Debit</u>	<u>Credit</u>
8/17/15 ER Payroll tax expense	\$819	
Social Sec tax payable (Liability)		\$372
Medicare tax payable (Liability)		\$ 87
Fed Unemployment tax payable (Liability)		\$ 36
State Unemployment tax payable (Liability)		\$324
Expenses incurred for employer taxes		

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Payroll Example



	<u>Debit</u>	<u>Credit</u>
8/17/15 Payroll tax expense	\$819	
Social Sec tax payable (Liability)		\$372
Medicare tax payable (Liability)		\$ 87
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Payroll Example




	<u>Debit</u>	<u>Credit</u>
217 ER SS Tax payable		\$372
218 ER Medicare Tax payable		\$87

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Payroll Example



Assets

219 FUTA Tax payable

Debit	Credit
(left)	(right)
-	+
	\$36

=



Liabilities



220 SUI Tax payable


Debit	Credit
(left)	(right)
-	+
	\$324

+

Equity


<div style="display: flex; justify-content: space-between; align-items: center;">  <div> <p style="text-align: center;">2017 CPP Study Group</p> </div>  </div>		
<h2>Paying Employee Taxes and Health Ins</h2>		
	<u>Debit</u>	<u>Credit</u>
8/20/15	Fed Inc Tax Withheld (Liability)	\$1,200
	State Inc Tax Withheld (Liability)	\$ 300
	Soc Sec Tax Withheld (Liability)	\$ 372
	Med Tax Withheld (Liability)	\$ 87
	Health Ins Premiums (Liability)	\$ 200
	Cash from Payroll Checking Acct (Asset)	\$2,159
<p>Paying taxes that were withheld from employees</p>		

		2017 CPP Study Group Payroll Example			
8/20/15	Fed Inc Tax Withheld (Liability) State Inc Tax Withheld (Liability) Soc Sec Tax Withheld (Liability) Med Tax Withheld (Liability) Health Ins Premiums (Liability)	Debit \$1,200 \$ 300 \$ 372 \$ 87 \$ 200		Credit	
	Cash from Payroll Checking Acct (Asset) Paying taxes that were withheld from employees				\$2,159
<hr/>					
Assets	=	Liabilities	+	Equity	
211 Salaries/wages payable					
Debit	Credit	Debit	Credit	Debit	Credit
(left)	(right)	(left)	(right)	(left)	(right)
+			+		
\$50,000	\$3,961		\$6,000		\$11 Salary Expense
	\$2,159		\$3,961		Debit Credit
					(left) (right)
				Revenue	\$6,000
					(left) (right)
				Debit Credit	\$12 ER Tax Expense
				(left) (right)	Debit Credit
					(left) (right)
					+
					\$831



2017 CPP Study Group

Payroll Example



Assets = Liabilities + Equity


212 Fed Inc Tax Withheld payable

Debit	Credit
(left)	(right)
-	+
\$1,200	\$1,200

213 State Inc Tax Withheld payable


Debit	Credit
(left)	(right)
-	+
\$300	\$300

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Payroll Example



Assets = Liabilities + Equity


214 Soc Security Tax Withheld payable

Debit	Credit
(left)	(right)
-	+
\$372	\$372

215 Medicare Tax Withheld payable


Debit	Credit
(left)	(right)
-	+
\$87	\$87

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Payroll Example




Assets = Liabilities + Equity


216 Health Ins Premiums payable

Debit	Credit
(left)	(right)
-	+
\$200	\$200

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Paying the Employer Taxes

		<u>Debit</u>	<u>Credit</u>
8/20/15	Social Sec Tax Payable (Liability)	\$372	
	Medicare Tax Payable (Liability)	\$ 87	
	FUTA Tax Payable (Liability)	\$ 36	
	SUTA Payable (Liability)	\$324	
	Cash from Payroll Checking Acct (Asset)		\$819
	Paying employer taxes		

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Payroll Example




		<u>Debit</u>	<u>Credit</u>
8/20/15	Social Sec Tax Payable (Liability)	\$372	
	Medicare Tax Payable (Liability)	\$ 87	
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	Paying employer taxes		

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2017 CPP Study Group
Payroll Example




Assets	=	Liabilities	+	Equity																
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(left)	(right)																			
\$87	\$87																			

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2017 CPP Study Group

Payroll Example



Assets = Liabilities + Equity


219 FUTA Tax payable

Debit	Credit
(left)	(right)
\$36	\$36

220 SUI Tax payable


Debit	Credit
(left)	(right)
\$324	\$324

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2017 CPP Study Group


Accrual –estimated payroll for fiscal period



	Debit	Credit
8/31/15 Accrued Payroll Expense	\$30,000	
Accrued Payroll Liability		\$30,000
Accrual of 10 days pay at \$3,000 per day		


May also want to accrue 10 days overtime pay at a determined % times \$3,000 per day

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2017 CPP Study Group

Payroll Example




	Debit	Credit
8/31/15 Accrued Payroll Expense	\$30,000	
Accrued Payroll Liability		\$30,000
Accrual of 10 days pay at \$3,000 per day		

Assets = Liabilities + Equity


111 Cash 221 Accrued Payroll Liability

Debit	Credit	Debit	Credit	Debit	Credit
(left)	(right)	(left)	(right)	(left)	(right)
\$150,000	-	-	\$30,000	-	-
		Revenue	Credit	513 Accrued Salary Exp	Debit
		(left)	(right)	(left)	(right)
		-	\$30,000	-	-

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2017 CPP Study Group



Employer's Accrued Tax Liabilities


	<u>Debit</u>	<u>Credit</u>
8/31/15 Accrued Payroll Tax Expense	\$4,095	
Accrued SS Tax Expense		\$1,860
Accrued Medicare Tax Payable		\$ 435
Accrued FUTA Tax Payable		\$ 180
Accrued SUI Tax Payable		\$1,620
Expenses accrued for employer taxes for the 10 days		

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2017 CPP Study Group


Payroll Example



	<u>Debit</u>	<u>Credit</u>
8/31/15 Accr ER Tax Expense	\$4,095	
Accrued SS Tax Payable		\$1,860
Accrued Medicare Tax Payable		\$ 435
Accrued FUTA Tax Payable		\$ 180
Accrued SUI Tax Payable		\$1,620
Accrue for ER Taxes		


Assets	=	Liabilities	+	Equity																										
<div style="display: flex; justify-content: space-between;"> <div style="width: 20%;"> <p>221 Accrued Payroll Liability</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%; text-align: center;"><u>Debit</u></th> <th style="width: 50%; text-align: center;"><u>Credit</u></th> </tr> <tr> <th style="text-align: center;">(left)</th> <th style="text-align: center;">(right)</th> </tr> </thead> <tbody> <tr> <td style="text-align: right;">+\$150,000</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">+\$30,000</td> </tr> </tbody> </table> </div> <div style="width: 20%;"> <p>Revenue</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%; text-align: center;"><u>Debit</u></th> <th style="width: 50%; text-align: center;"><u>Credit</u></th> </tr> <tr> <th style="text-align: center;">(left)</th> <th style="text-align: center;">(right)</th> </tr> </thead> <tbody> <tr> <td></td> <td style="text-align: right;">+\$30,000</td> </tr> </tbody> </table> </div> <div style="width: 20%;"> <p>513 Accr Salary Expense</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%; text-align: center;"><u>Debit</u></th> <th style="width: 50%; text-align: center;"><u>Credit</u></th> </tr> <tr> <th style="text-align: center;">(left)</th> <th style="text-align: center;">(right)</th> </tr> </thead> <tbody> <tr> <td></td> <td style="text-align: right;">+\$30,000</td> </tr> </tbody> </table> </div> <div style="width: 20%;"> <p>514 Accr ER Tax Expense</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%; text-align: center;"><u>Debit</u></th> <th style="width: 50%; text-align: center;"><u>Credit</u></th> </tr> <tr> <th style="text-align: center;">(left)</th> <th style="text-align: center;">(right)</th> </tr> </thead> <tbody> <tr> <td></td> <td style="text-align: right;">+\$4,095</td> </tr> </tbody> </table> </div> </div>					<u>Debit</u>	<u>Credit</u>	(left)	(right)	+\$150,000			+\$30,000	<u>Debit</u>	<u>Credit</u>	(left)	(right)		+\$30,000	<u>Debit</u>	<u>Credit</u>	(left)	(right)		+\$30,000	<u>Debit</u>	<u>Credit</u>	(left)	(right)		+\$4,095
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2017 CPP Study Group

Payroll Example




Assets	=	Liabilities	+	Equity												
<div style="display: flex; justify-content: space-between;"> <div style="width: 20%;"> <p>222 Accrued SS Tax payable</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%; text-align: center;"><u>Debit</u></th> <th style="width: 50%; text-align: center;"><u>Credit</u></th> </tr> <tr> <th style="text-align: center;">(left)</th> <th style="text-align: center;">(right)</th> </tr> </thead> <tbody> <tr> <td style="text-align: right;">-</td> <td style="text-align: right;">+\$1,860</td> </tr> </tbody> </table> </div> <div style="width: 20%;"> <p>223 Accrued Medicare payable</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%; text-align: center;"><u>Debit</u></th> <th style="width: 50%; text-align: center;"><u>Credit</u></th> </tr> <tr> <th style="text-align: center;">(left)</th> <th style="text-align: center;">(right)</th> </tr> </thead> <tbody> <tr> <td style="text-align: right;">-</td> <td style="text-align: right;">+\$435</td> </tr> </tbody> </table> </div> </div>					<u>Debit</u>	<u>Credit</u>	(left)	(right)	-	+\$1,860	<u>Debit</u>	<u>Credit</u>	(left)	(right)	-	+\$435
<u>Debit</u>	<u>Credit</u>															
(left)	(right)															
-	+\$1,860															
<u>Debit</u>	<u>Credit</u>															
(left)	(right)															
-	+\$435															

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2017 CPP Study Group

Payroll Example




Assets = Liabilities + Equity

		224 Accrued FUTA Tax payable			
	<u>Debit</u>		<u>Credit</u>		
	(left)		(right)		
	-		+		
			\$180		


		225 Accrued SUI Tax payable			
	<u>Debit</u>		<u>Credit</u>		
	(left)		(right)		
	-		+		
			\$1,620		

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Reverse Accruals in new fiscal period




		<u>Debit</u>	<u>Credit</u>	
9/1/15	Accrued Payroll Liability	\$30,000		
	Accrued Payroll Expense		\$30,000	
	Reverse Salary Accrual			

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2017 CPP Study Group

Payroll Example




9/1/15	Accrued Payroll Liability	\$30,000			
	Accrued Payroll Expense		\$30,000		
	Reverse Salary Accrual				

Assets		=	Liabilities		+	Equity	
	<u>Debit</u>		<u>Debit</u>	<u>Credit</u>		<u>Debit</u>	<u>Credit</u>
	(left)		(left)	(right)		(left)	(right)
	+		+	+		+	+
	\$150,000		\$30,000	\$30,000		\$30,000	\$30,000


	Revenue			513 Accr Salary Expense			
				(left)	(right)		
				-	-		
				\$30,000	\$30,000		

	514 Accr ER Tax Expense			(left)	(right)		
				-	-		
				\$4,095	\$4,095		

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2017 CPP Study Group




Reverse employer's accrued tax liabilities

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

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2017 CPP Study Group
Payroll Example




		Debit	Credit
8/31/15	Accrued SS Tax Payable	\$1,860	
	Accrued Medicare Tax Payable	\$ 435	
	Accrued FUTA Tax Payable	\$ 180	
	Accrued SUI Tax Payable	\$1,620	
	Accr ER Tax Expense		\$4,095
Reverse Accrual for ER Taxes			

Assets	=	Liabilities	+	Equity
111 Division Bank Acct		221 Accrued Payroll Liability		
Debit		Debit		Debit
(left)		(left)		(left)
\$150,000		\$30,000		Revenue
		Credit		Credit
(right)		(right)		(right)
-		\$30,000		513 Accr Salary Expense
				Debit
				(left)
				\$30,000
				Credit
				(right)
				514 Accr ER Tax Expense
				Debit
				(left)
				\$4,095
				Credit
				(right)
				\$4,095

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2017 CPP Study Group
Payroll Example




Assets	=	Liabilities	+	Equity
		222 Accrued SS Tax payable		
		Debit		Credit
		(left)		(right)
		\$1,860		\$1,860
		223 Accrued Medicare payable		
		Debit		Credit
		(left)		(right)
		\$435		\$435

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2017 CPP Study Group

Payroll Example




Assets = Liabilities + Equity

224 Accrued FUTA Tax payable	
Debit	Credit
(left)	(right)
\$180	\$180

225 Accrued SUI Tax payable	
Debit	Credit
(left)	(right)
\$1,620	\$1,620


What other expenses might need to be accrued?

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2017 CPP Study Group

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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2017 CPP Study Group

Internal Controls




- Segregation of duties
- Rotation of job duties
- Check distribution
- Negative deductions
- Secure blank check stock
- Time and salary change approvals
- Internal auditors

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2017 CPP Study Group


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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2017 CPP Study Group

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

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Questions





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