Payroll Accounting

Presented by:
Cheryl Ball, CPM
Payroll Compliance Advisor
The Canadian Payroll Association

Agenda
- Accounting is ...
- Terms and Jargon
- The Accounting Process
- Accounts for Payroll
- Chart of Accounts
- Specific Payroll Accounts
- Accounting Tips
- Accounting Periods
- Single/Double-Entry
- Reconciliations
- Budgets
- Variances
- Payroll Audit
- Record Retention
Accounting ...

**Enables**
employers to meet statutory obligations

**Tracks**
deductions and remittances

**Summarizes**
and analyzes payroll information recorded in the General Ledger

Accounting ...

**Provides**
operating costs

**Reports**
payroll information to managers, government bodies, auditors and shareholders

The Accounting Process

- The Flow
Terms and Jargon

Salaries and wages paid

- Withholding of statutory deductions
- Employee deductions
  - Employer taxes/levies
  - Company benefits expenses

Terms and Jargon

- Double-Entry/Single-Entry
- “T” Accounts
- Journal/Journalize
- General Ledger
- Post/Posting

Terms and Jargon

- Account
- Journal Entry
- Adjusting Journal Entry
- Job Code/Cost Centre
- Balance
Accounts for Payroll

• Assets
• Liabilities
• Expenses

Chart of Accounts is ...

• A list of accounts with titles and numbers to be used in the ledger

<table>
<thead>
<tr>
<th>Account Type</th>
<th>Account Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>1000 - 1999</td>
</tr>
<tr>
<td>Equity</td>
<td>2000 - 2999</td>
</tr>
<tr>
<td>Liabilities</td>
<td>3000 - 3999</td>
</tr>
<tr>
<td>Revenue</td>
<td>4000 - 4999</td>
</tr>
<tr>
<td>Expenses</td>
<td>5000 - 5999</td>
</tr>
</tbody>
</table>

Specific Payroll Accounts

• Assets
  – cash
  • (payroll chequing/clearing account)
Specific Payroll Accounts

- Liabilities
  - salaries/wages payable
  - benefit deductions
  - EE statutory deductions withheld

Specific Payroll Accounts

- Expenses
  - salaries/wages expense
  - benefit expenses
  - ER statutory portions required

Accounting Tips

- Cash
  - debits – increase (deposits)
  - credits – decrease (cheques)
Accounting Tips

• Traditional Balance
  – expense – debits
  – liabilities – credits

Accounting Tips

• Making a payment
  – debit liability or debit expense
  – credit cash

Accounting Tips

Payroll Accounting

<table>
<thead>
<tr>
<th>Pay Elements</th>
<th>EHT</th>
<th>C/QPP Employer</th>
<th>EI Employer</th>
<th>QPIP Employer</th>
<th>Union Dues</th>
<th>Benefits</th>
<th>Voluntary Deduc.</th>
<th>Net Pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Pay</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C/QPP contrib. payable</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EI premiums payable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>QPIP premiums payable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal income tax payable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employer share of group benefits</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Québec income tax payable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Union dues payable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Net pay

Payroll cash

Paying Employees

Remitting cheques to 3rd Parties

The DEBIT = CREDIT rule

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Left</td>
<td>Right</td>
</tr>
</tbody>
</table>
Accounting Tips

• Debit or Credit...
  • assets/expenses
    – generally have a DEBIT Balance
  • liabilities
    – generally have a CREDIT balance

Accounting Tips

What an asset/expense account does:

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increases</td>
<td>Decreases</td>
</tr>
</tbody>
</table>

What a liability account does:

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decreases</td>
<td>Increases</td>
</tr>
</tbody>
</table>

Accounting Equation

\[
A = L + E \\
\text{(assets)} = \text{(liabilities)} + \text{(equity)} \\
DR = CR + CR
\]
Accounting Periods

Are:
- an established period of time covered by financial statements
- an accounting period of one year equaling the accounting year
- fiscal year is 12 consecutive months (not always a calendar year)

Double-Entry Accounting

- All entries must consist of a debit and a credit
- All entries must balance
- Use the “T” Account method

<table>
<thead>
<tr>
<th>&quot;T&quot; Account</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Debit</td>
<td></td>
<td>Credit</td>
</tr>
</tbody>
</table>

T-Accounts

- Double-entry method of accounting

<table>
<thead>
<tr>
<th>Salaries</th>
<th></th>
<th>Cash</th>
</tr>
</thead>
<tbody>
<tr>
<td>DR</td>
<td>1,000</td>
<td>CR</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
• Use pay period end date for:
  – gross payroll
  – benefits

• Use pay date for:
  – statutory deductions
  – net payroll (cash)

Recording Transactions

Journalizing

- a financial transaction
- components
- sub-journals
- batch processing

Journal Entry #1

<table>
<thead>
<tr>
<th>Account Name</th>
<th>Account No.</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Warehouse wages</td>
<td>5000-602</td>
<td>574,532.00</td>
<td></td>
</tr>
<tr>
<td>Warehouse overtime</td>
<td>5000-603</td>
<td>12,685.34</td>
<td></td>
</tr>
<tr>
<td>Warehouse sick pay</td>
<td>5000-620</td>
<td>1,005.22</td>
<td></td>
</tr>
<tr>
<td>Warehouse vacation pay</td>
<td>5000-621</td>
<td>1,198.08</td>
<td></td>
</tr>
<tr>
<td>C/QPP contributions payable</td>
<td>2000-207</td>
<td>24,591.23</td>
<td></td>
</tr>
<tr>
<td>EI premiums payable</td>
<td>2000-208</td>
<td>11,964.29</td>
<td></td>
</tr>
<tr>
<td>Federal Income tax payable</td>
<td>2000-209</td>
<td>73,873.09</td>
<td></td>
</tr>
<tr>
<td>Union dues payable</td>
<td>2000-216</td>
<td>587.50</td>
<td></td>
</tr>
<tr>
<td>Medical/dental payable</td>
<td>2000-215</td>
<td>1,250.00</td>
<td></td>
</tr>
<tr>
<td>Payroll clearing (net pay)</td>
<td>2000-304</td>
<td>477,154.53</td>
<td></td>
</tr>
</tbody>
</table>

Total: 589,420.64 589,420.64

To record wages expense for payroll of May 26, 20xx
Journal Entry #2
Date: May 26, 20xx

<table>
<thead>
<tr>
<th>Account Name</th>
<th>Account No.</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Warehouse C/QPP - employer</td>
<td>5000-651</td>
<td>24,591.23</td>
<td></td>
</tr>
<tr>
<td>Warehouse EI - employer</td>
<td>5000-652</td>
<td>16,750.01</td>
<td></td>
</tr>
<tr>
<td>Group benefits - employer</td>
<td>5000-653</td>
<td>1,250.00</td>
<td></td>
</tr>
<tr>
<td>C/QPP contributions payable</td>
<td>2000-207</td>
<td>24,591.23</td>
<td></td>
</tr>
<tr>
<td>EI premiums payable</td>
<td>2000-208</td>
<td>16,750.01</td>
<td></td>
</tr>
<tr>
<td>Medical/dental payable</td>
<td>2000-215</td>
<td>1,250.00</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>42,591.24</td>
<td>42,591.24</td>
</tr>
</tbody>
</table>

To record employer’s portion of CPP, EI and medical/dental expenses

Create Payments

- Payment of Statutory Deductions
  - debit – C/QPP, EI, QPIP, income tax liabilities accounts
  - credit – cash

- Payment of Payroll
  - debit – wages payable
  - credit – cash

Record Transactions

- Posting to the General Ledger
  - transfers information from journal to the accounts

- Trial Balance
  - verifies that debits and credits are equal
Financial Statement contains...

- A Balance Sheet
  - showing the financial position at a point in time
    - considered permanent accounts
  - Assets = Liabilities + Equity

Financial Statement contains...

- An Income Statement
  - over a period of time
    - considered temporary accounts
  - Income = Revenue - Expenses

Accruals

- Record estimated payroll expense in correct period
  - salaries, vacation, bonuses, sick leave payments
- Completed at the end of the period
- Accrual is a portion of regular payroll
  - earnings to be accrued vary by company
  - omission of accruals understates expenses and provides misleading information
Accruals

Represent reasonable estimate
Amounts need to be as precise as possible; however, do not need to be exact
Usually based on pro-ration or percentage

Accruals

What to accrue?

Work week is 5 days
Accrual for April 15 - 30
Monday - Friday (no overtime)
120,000 divided by 10 = 12,000 per day
Accrual
12,000 X 12 = 144,000

April 30 Journal Entry

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries Expense</td>
<td>144,000.00</td>
</tr>
<tr>
<td>Payroll Accrual Liability</td>
<td>144,000.00</td>
</tr>
</tbody>
</table>
Accrual Reversals

Reduce the amount for salaries, wages, vacation and/or benefits by:

- the amount that was reported for a previous accounting period

Accrual Reversals

- Reversed-at beginning of next period
- May 1 Journal Entry

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll Accrual Liability</td>
<td>144,000.00</td>
</tr>
<tr>
<td>Salaries Expense</td>
<td>144,000.00</td>
</tr>
</tbody>
</table>

- Actual will post in current month
  - April 15 – 26 - post with May 3rd payroll
  - April 29 – 30 - post with May 17th payroll
  - May payroll accrual will only be 5 days

Vacation Accruals

Recorded as the vacation costs accrue each pay period

Reduce when an employee takes vacation or is paid vacation pay
Sick Leave Accrual

- Depends on company policy

If employee can accumulate leave, the employer incurs a liability

- When employee uses leave, liability is reduced by amount paid to the employee

Reconciliations

- Performed just after month-end
- Confirm all entries have been posted
- Verify expenses are booked accurately and balances to payroll

Reconciliations

- Payments are on schedule
  - easier if payroll administrator understands schedule
- Reconcile payroll liability accounts
  - GL balance to payroll journals/registers
- Once identified - is difference valid?
Reconciliations

• Example: Federal Income Tax
  – assume Threshold II Remitter
  – liability incurred on Friday
    • due on or before the following Wednesday

<table>
<thead>
<tr>
<th>Sun</th>
<th>Mon</th>
<th>Tues</th>
<th>Wed</th>
<th>Thurs</th>
<th>Fri</th>
<th>Sat</th>
</tr>
</thead>
<tbody>
<tr>
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<td>5</td>
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<td>28</td>
<td>29</td>
<td>30</td>
<td>31</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

General Ledger balance
3/31 0.00

4/4 Liability (30,000.00)
4/9 Payment 30,000.00
4/18 Liability (30,000.00)
4/23 Payment 30,000.00

General Ledger balance
4/30 0.00
Support shows all payments made agree with balance

<table>
<thead>
<tr>
<th>Sun</th>
<th>Mon</th>
<th>Tues</th>
<th>Wed</th>
<th>Thurs</th>
<th>Fri</th>
<th>Sat</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
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<td>26</td>
<td>27</td>
<td>28</td>
<td>29</td>
<td>30</td>
<td></td>
</tr>
</tbody>
</table>

General Ledger balance
4/30 0.00

5/2 Liability (30,000.00)
5/7 Payment 30,000.00
5/16 Liability (30,000.00)
5/21 Payment 30,000.00
5/30 Liability (30,000.00)

General Ledger balance
5/31 (30,000.00)

$30,000.00 is due June 3 credit balance at the end of May is valid
Reconciliations

• Avoid Errors in Posting
  - Ensure account numbers are correct
  - Post to correct side of the entry
  - Post all debits and credits
  - Ensure all debits and credits are equal

Reconciliations

• Finding Errors

Federal Tax payable | Union dues payable
--- | ---
Balance | 36,000 | 13,092
Sept 2 | 37,000 | Sept 2 | 3,300
Sept 10 | 36,000 | Sept 16 | 3,370
Sept 15 | 13,092 | Sept 30 | 3,290
Sept 16 | 37,040 | Balance | 23,052
Sept 25 | 37,000 | Sept 30 | 38,100
Sept 30 | 38,100 | Balance | 62,948
Oct 10 | 62,948 |

Payroll and Budgets

• What is a budget?
  - A plan, in monetary terms, which an organization uses:
    • to set financial goals
    • to measure financial performance against predetermined expectations
    • as a guideline in keeping a company on a charted course
Payroll and Budgets

• What are the payroll implications?
  – Payroll participates in developing budgets for:
    • its departmental operating costs
    • government related payroll taxes
    • employee benefits (sick leave/vacation)
    • employee benefit plans
    • providing information for other departments

Variance to Budget

• Possible Sources of Variances
  – headcount
  – shortage of FTE
  – error in general ledger posting
  – items not included in budgets
  – more or less hours worked than budgeted
  – different mix of grade levels of FTE
  – change in planned salary increases

Payroll Audit

• Payroll department is subject to more audits than any other area of a company’s activities
• Auditors:
  – the company’s employees
  – internal auditors
  – external auditors
  – government auditors
Payroll Audit

- Performed independently
- Assessments of the financial and operating integrity of the company’s records and activities
- Measures of the reliability of the company’s financial results
- Safeguards of the company’s assets
- Tools to determine the efficiency and effectiveness of operations

Payroll Audit

- Systems Review
  - Auditors rely on internal controls. They will want the employer to provide:
    - description of payroll system (or flow chart)
    - documentation of internal controls
    - reconciliations/approvals
    - description of audit trail
    - written evidence of changes to employee status
    - process time

Payroll Audit

- Other Assistance
  - Pulling of documents for auditor such as:
    - TD1
    - salary authorization
    - hiring forms
    - termination forms
    - time cards
    - paid cheques
    - approved payroll input forms
    - bank DR/CR memos
    - payroll journals
Record Retention

- Canada Revenue Agency (CRA)
- Revenue Quebec (RQ)
- Labour/Employment Standards
- Pension records
- Publications

Questions

Thank you for participating!!