

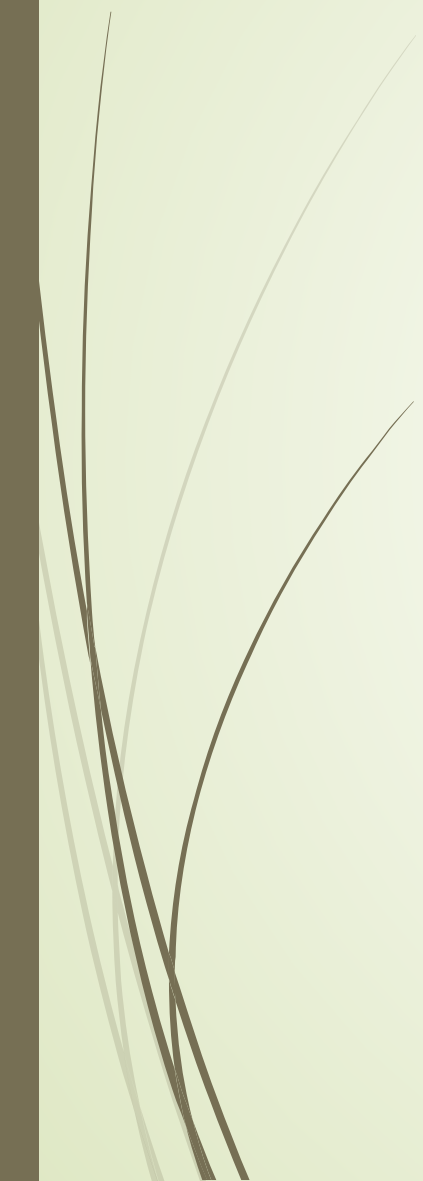
It's a Crime Not to Take Your Accounting Practices Seriously!

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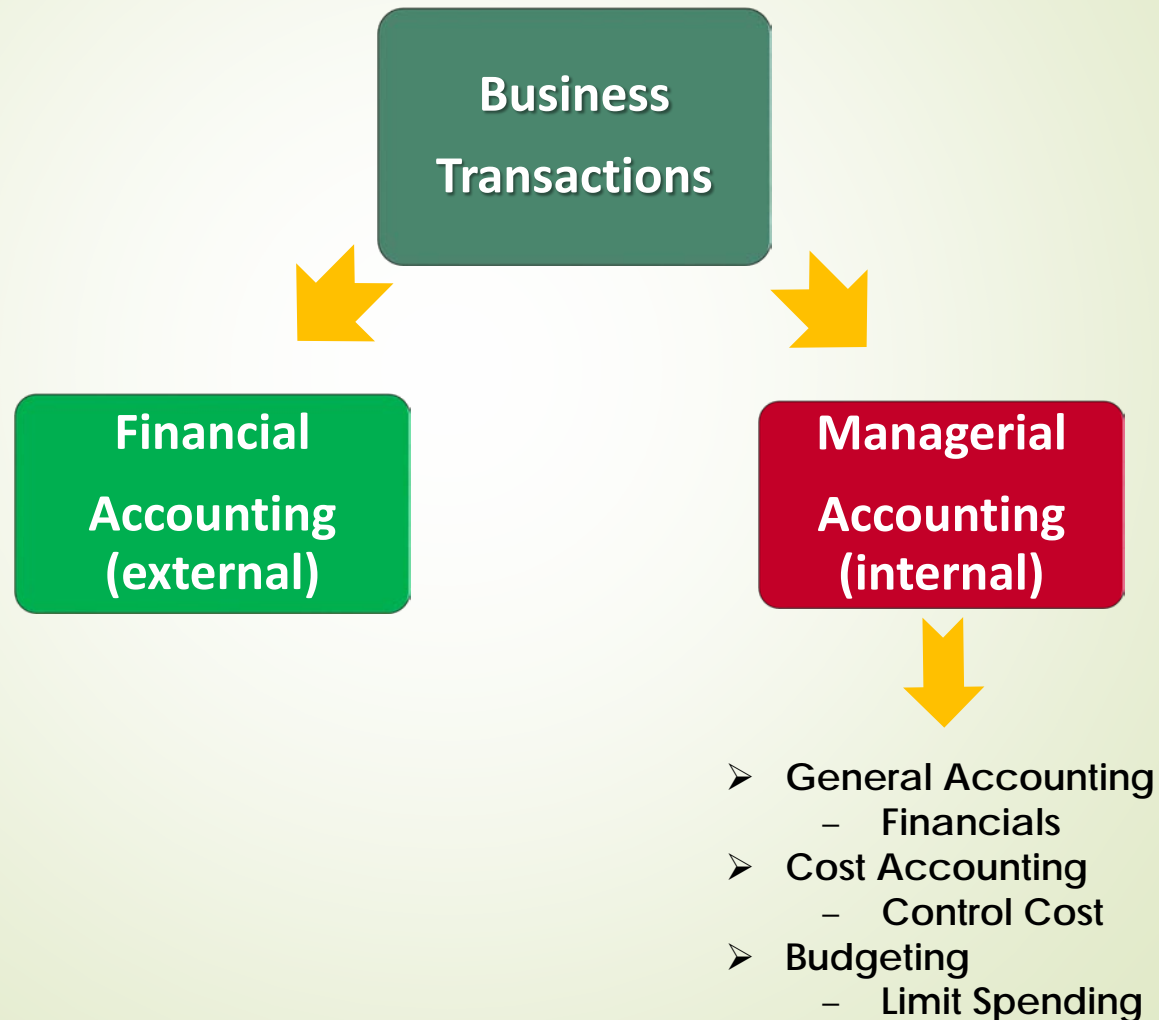




Purpose of Accounting

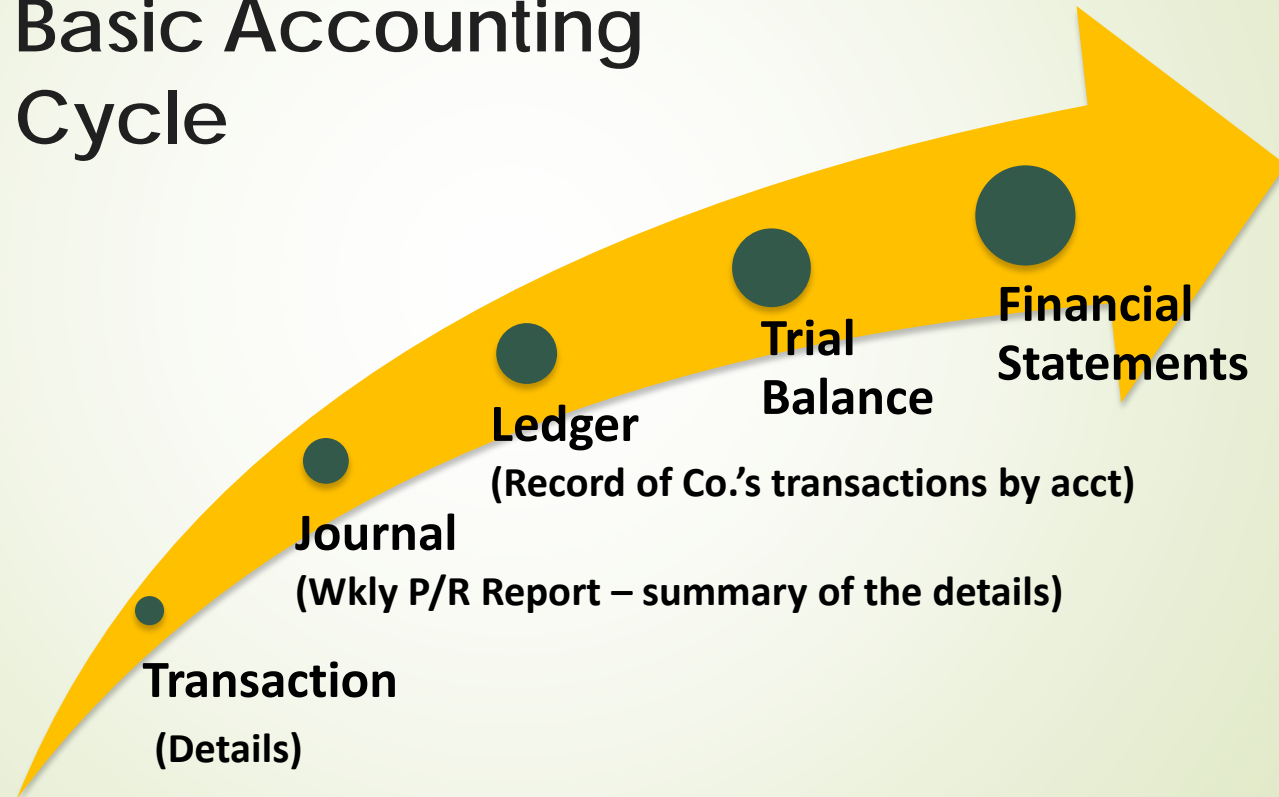
- To identify, measure and report financial information of a company
 - To provide information to different users so that they can use it to make business decisions
 - The Payroll department must gather accurate and timely data regarding wages paid, taxes withheld and other deductions
 - This data allows the Accounting department to prepare complete financial statements
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Purpose of Accounting



Accounting Concepts

Basic Accounting Cycle





Accounting Cycle

- **Journal (book of original entry)** – a complete record of every business transaction. Consists of subsidiary ledgers (ex. Payroll Register, A/P Ledger, A/R Ledger, etc.)
- **Ledger** – a record of business transactions kept by account and grouped by account type (ex. Assets, Liabilities, etc.)
- **Trial Balance** – a listing of the accounts in the general ledger along with each account's balance

Chart of Accounts

- **Chart of Accounts** – a listing of all the accounts and account types into which business transactions will be recorded
- **Account** – a record in the general ledger that is used to collect and store similar information. In large companies, the account number can be very long with specific digits designating company divisions, departments, locations as well as the type of account.

➤ **XXXX.XXXX.XXXX.XXXXXX**

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Co. Div. Loc. Dept. Account

The Types of Accounts:

- | | |
|--------------|------------|
| 1. Asset | 4. Revenue |
| 2. Liability | 5. Expense |
| 3. Equity | |



Summarized Chart of Accounts

Account Type	Account Number Range
Assets	10000 – 19999
Liabilities	20000 – 29999
Equity	30000 – 39999
Revenue	40000 – 49999
Expenses	50000 – 89999



Balance Sheet

➤ **Assets**

- An item of economic value over which the company has legal control

➤ **Liabilities**

- Monies owed to external entities
- Company debts that have not yet been paid

➤ **Owner's Equity**

- Monies owed to internal entities (the owners)
- The company's net worth

The Accounting Equation

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

(External Money Owed) (Investors /
Net Worth (Profits))

*The company's
resources*

*Claims against the
company's resources*



Income Statement

Net Income = Revenues - Expenses

➤ **Revenue**

- Inflows from the delivery or manufacture of a product or from the rendering of a service
- Identifies amounts received for goods sold during the accounting period

➤ **Expense**

- The cost for goods and services consumed by the company



Payroll Specific Accounts



Assets

- Cash (payroll checking account)



Liabilities

- Salaries/Wages Payable
- Deductions
- Employee Taxes Withheld

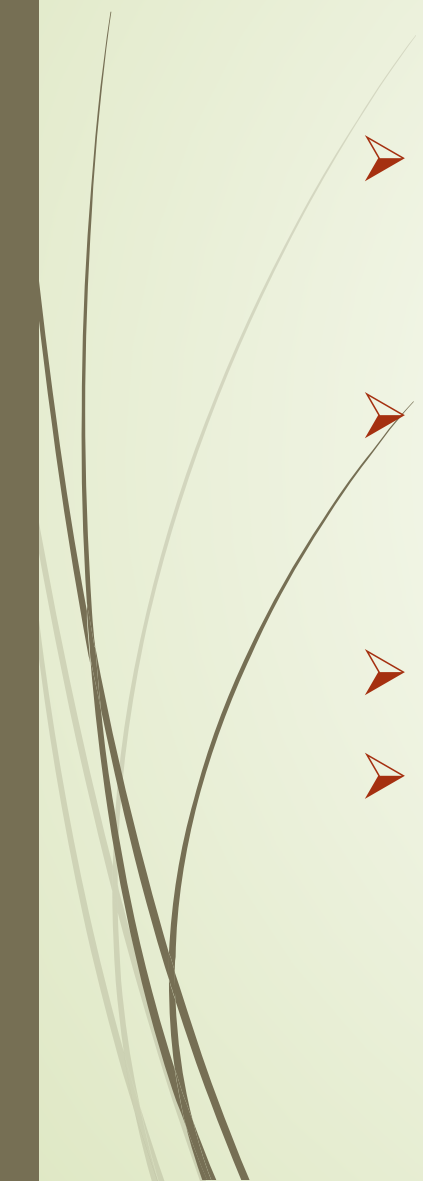


Expenses

- Salaries/Wages Paid to Employees
- Employer's share of the Payroll Taxes
 - Paid Benefit Costs



Accounting Terms

- **General Ledger** – that part of the accounting system that contains the balance sheet and income statement accounts
 - **Fiscal Year** – an accounting year that equals 12 consecutive months, which may not be the same as a calendar year
 - **Journal Entry** – the entry made in a journal
 - **Post** – to enter a business transaction into a journal or ledger
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Accounting Concepts

- **Cash Method**

- Revenues and expense are recognized when the cash is received or paid (checkbook accounting)

- **Accrual Method**

- Revenues are recognized in the period they are earned and expenses are recognized in the period they are incurred

Accrual – a journal entry posted to bring the balance sheet and income statement up to date on an accrual basis; this requires reversal of the journal in the following period



Accounting Concepts

- **Double Entry Accounting keeps the basic accounting equation balanced.**
 - Every business transaction involves an exchange between at least two accounts
 - This exchange takes the form of debits and credits to those accounts
 - For each debit, there is an equal and opposite credit to another account

Debits and Credits

- Whether a debit or credit increases or decreases an account depends on the type of account to which it is being posted to

Debit Balance	Credit Balance
Asset	Liability
Expense	Equity
	Revenue



Debits and Credits

Account Type	Normal Balance	What a debit does	What a credit does
Asset	Debit	Increases	Decreases
Liability	Credit	Decreases	Increases
Equity	Credit	Decreases	Increases
Revenue	Credit	Decreases	Increases
Expense	Debit	Increases	Decreases

Debits and Credits

Debit	Credit
Assets Expense	Liabilities Capital/Equity Revenue

Vowels

Consonants

Accounting Terms

- **"T" Account** – a visual aid used by Accountants to illustrate a journal entry's effect on General Ledger accounts

Salary & Wage Expense

Debit

Credit

Accrued Wages

Debit

Credit



Preparing a Journal Entry

Steps to prepare a manual journal entry:

- 1) Identify the accounts involved
- 2) Identify the account type of each account
- 3) Determine whether the transaction is increasing or decreasing each account
- 4) Apply the logic of the account type table
- 5) Make sure that the total \$ amount of the debits equal the total \$ amount of the credits

Journal Entry – Hourly-Paid Wages

Account Name	Debit	Credit	Acct Type
Wages Expense – Delivery Dept.	1,000.00		E
Wages Expense – Warehouse Dept.	1,300.00		E
FICA Tax Payable		175.95	L
Federal Inc. Tax Withholdings Payable		300.00	L
State Inc. Tax Withholdings Payable		110.00	L
401(k) Payable		70.00	L
Health Ins. – Delivery Dept.		90.00	L
Health Ins. – Warehouse Dept.		80.00	L
United Way Payable		30.00	L
Garnishment Payable		50.00	L
Net Payroll Payable		1,394.05	L
Record hourly-paid employee's wages and withholdings for the pay period 7/07/19 – 7/20/19 that will be paid on 7/26/19			

Journal Entry – Employer's Portion

Account Name	Debit	Credit	Acct Type
FICA Expense - Delivery	76.50		E
FICA Expense – Warehouse	99.45		E
Unemployment Tax Expense – Warehouse	4.00		E
Worker's Compensation Ins. Expense	46.00		E
Holiday, Vac. Sick Days Exp. – Delivery	100.00		E
Holiday, Vac. Sick Days Exp. – Warehouse	130.00		E
401(k) Expense – Delivery	10.00		E
401(k) Expense – Warehouse	25.00		E
FICA Tax Payable		175.95	L
Unemployment Tax Payable		4.00	L
Worker's Compensation Ins. Payable		46.00	L
Holiday, Vacation, Sick Days Payable		230.00	L
401(k) Payable		35.00	L

Record the company's payroll related expenses for the 7/26/19 payroll

Journal Entry – Distribution & Remittance

Date	Account Name	Debit	Credit	Acct Type
7/26/19	Net Payroll Payable	1,394.05		L
	Cash		1,394.05	A
Record the distribution of the hourly-paid payroll of 7/26/19				

Date	Account Name	Debit	Credit	Acct Type
7/26/19	FICA Tax Payable	351.90		L
	Federal Inc. Tax Withholdings Payable	300.00		L
	State Inc. Tax Withholdings Payable	110.00		L
	401(k) Payable	105.00		L
	Cash		866.90	A

Record the remittance of the 7/26/19 hourly-paid payroll withholdings

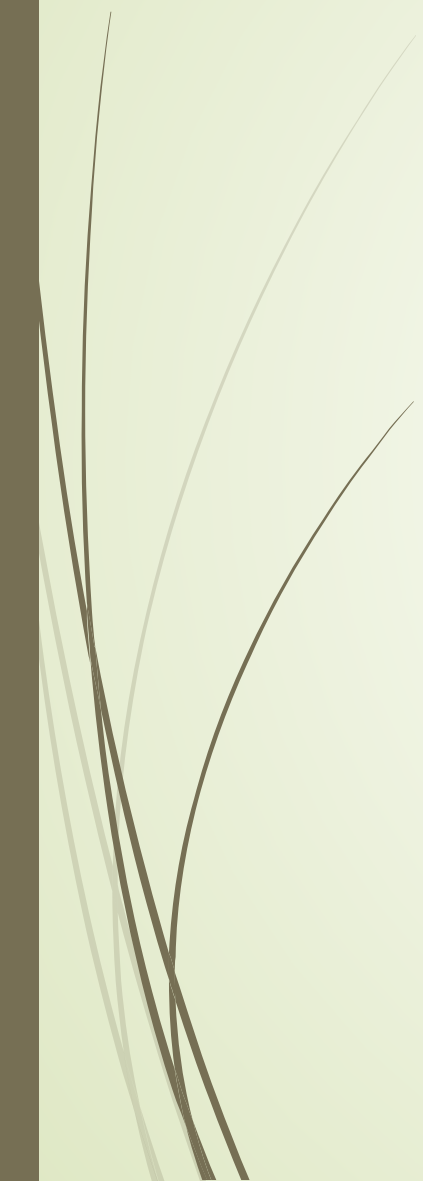
Journal Entry Accrual Example


- Journal entries are normally written in a columnar format to help distinguish the debits from the credit

Date	Account Description	Debit	Credit
7/26/19	Salary & Wage Expense	50,000.00	
	Accrued Salaries & Wages		50,000.00
Accrue the July portion of the August 9th payroll			



Payroll Accrual Example

- The accrual entry would need to be reversed on August 1st so that the August 9th payroll posting will net to only the August portion
 - When possible, accrual entries need to be based on actual numbers (ex. the actual August 9th payroll posting). If that is not possible, the best available information should be used.
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Payroll Reconciliations

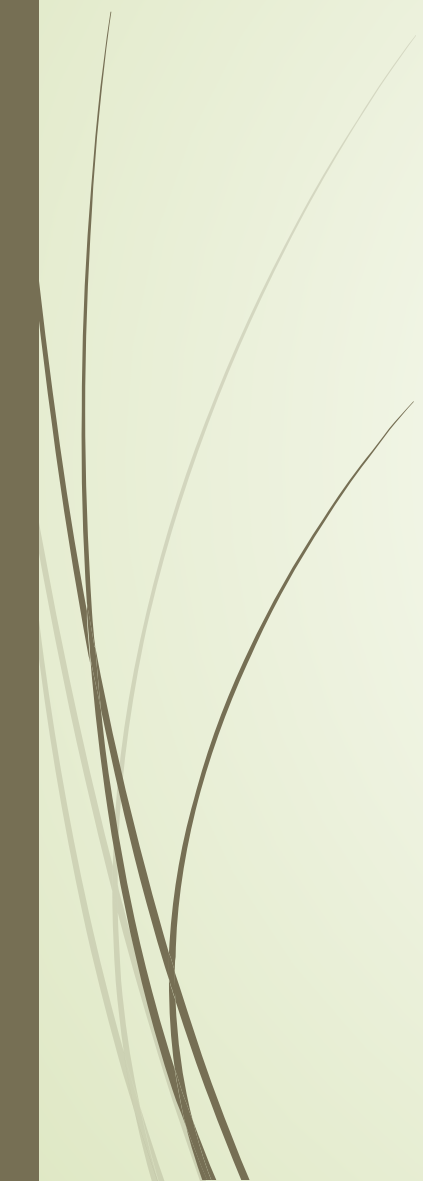
(per payroll)

- Timesheets are batched; then imported as payroll files; balanced to determine any differences
- Earnings Totals - Adjustments made
- Reconcile Gross to Net – Payroll Register
- Voluntary Deductions
- Taxable Wages (calculation)
- Employer Taxes
- Employee Taxes – Federal, State, Local & FICA

NOTE: Validating and balancing each payroll in preparation for the Quarterly Tax Reports (SUI, 941's & SIT forms) and ultimately the W-2's at year-end

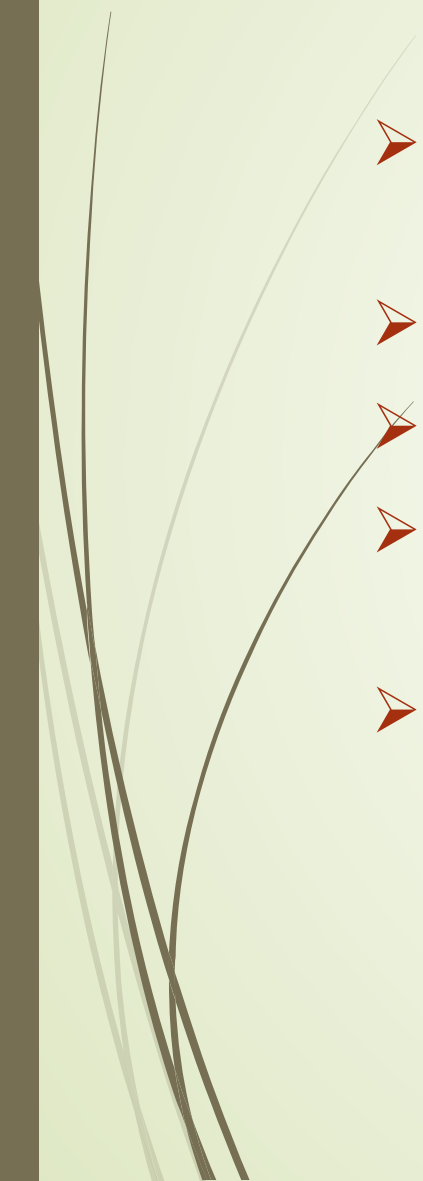


Why Balance & Reconcile Payroll Accounts

- Ensure employee paychecks are correct & the correct amount of taxes is withheld, deposited & reported timely
 - Periodic verification of GL entries
 - Identify differences & discrepancies, variances that occur determining reasons for errors
 - Re-class postings, as needed
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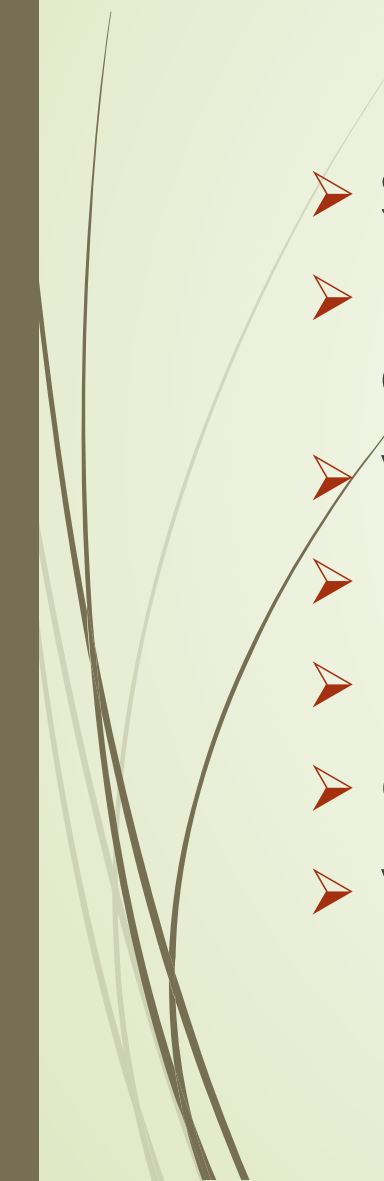


Accounting Reconciliations

- Should be performed at month-end or as soon as possible
 - Confirm that all entries have been posted
 - Confirm that payments are on schedule
 - Verify that expenses are accurately booked and balance with payroll
 - Verify that liability accounts are accurate
- 



Payroll and Audit Considerations

- Segregation of job duties
 - Executive approval of all bonus-type compensation & exception pays
 - Validate Negative pay deductions
 - Review excessive overtime hours
 - Phantom employees / Buddy punching
 - Computerized payroll system alerts
 - Verify Social Security numbers with the SSA
- 



Controlling Check Fraud

- Security features manufactured into the check paper – such as Mould Made Watermarks, Covert Fibers or Chemical Reactants
- MICR or OCR lines printed onto the check stock
- “VOID” Features can deter check copying
- Positive Pay – bank-sponsored electronic data checking – most effective
- Encourage Direct Deposit or Pay cards (no checks to steal)
- Separate Bank reconciliation from Payroll



ANY
QUESTIONS
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