



# Payroll Accounting

(Basics)

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# Double Entry Bookkeeping

Assets – Liabilities = Equity

OR

Assets = Liabilities + Equity





#### **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





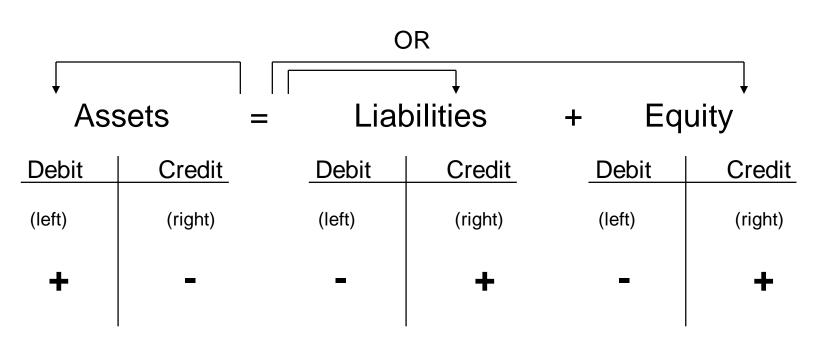
# **T-Accounts**

Debit	Credit
(left)	(right)





Assets **minus** Liabilities = Equity





## **Ledger** – Book of Final Entry



**Expenses** 

A list of accounts and the impact to the accounts

Lighilities

AS	seis	=	Liai	Jiilles	+ ⊏	quity
Debit	Credit		Debit	Credit	Debit	Credit

DODIC	Orodit	DODIL	Orodit	DODIC	01001
(left)	(right)	(left)	(right)	(left)	(right)
+	-	-	+	-	+

11010	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,		11000
_Debit	<u>Credi</u> t	_Debit	<u>Credi</u> t
(left)	(right)	(left)	(right)
-	+	-	+

Revenue





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

**Debit** 

Credit

8/17/17 Payroll bank account (asset)

\$50,000

Corporate bank account (asset)

\$50,000

Transfer cash for upcoming payroll from corp to division





# **General Ledger** – Book of Final Entry Balance by Account

111 Division Bank Acct

112 Corporate Bank Acct

Debit +	<u>Credit</u> -
\$50,000	

Debit +	<u>Credit</u> -
	\$50,000

#### **Typical Balances**

Assets	Debit
Liabilities	Credit
Equity	Credit
Income	Credit
Expenses	Debit





#### **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





#### **Starting a New Business**

**Push Mower** 

Riding Mower

Gasoline

Hiring Staff



#### Payroll Example



<u>Debit</u> <u>Credit</u>

8/17/17 Salary Expense (Equity/Expense)

Salaries/wages payable (Liability)

Cost of payroll for month of July

\$6,000

\$6,000

Assets = Liabilities + Equity

211 Salaries/wages payable

Debit	Credit	Debit	Credit	D	ebit
(left)	(right)	(left)	(right)	(le	eft)
+ \$50,000	-	-	\$6,000		-
·				Revei	nue
				Debit	Credi
				(left)	(right

D	ebit	Credit	-
(le	eft)	(right)	
	-	+	
Rever	nue	Expens	ses
		511 Salar	y Expense
ebit	<u>Credi</u> t	_Debit	<u>Credi</u> t
eft)	(right)	(left)	(right)





## Amount of EE's Pay Owed to Others

		<u>Debit</u>	<u>Cre</u>	<u>dit</u>
8/17/17	Salaries/wages payable (Liability)	\$2,159		
	Fed Inc Tax Withheld (Liability)		\$1,2	200
	State Inc Tax Withheld (Liability)		\$ 3	300
	Soc Security Tax Withheld (Liabi	lity)	\$ 3	372
	Medicare Tax Withheld (Liability)		\$	87
	Health Ins Premiums (Liability)		\$ 2	200

Deductions from employees checks that are owed to third parties.



#### 2017 Midwest Payroll Conference Payroll Example

<u>Debit</u>

Credit FOLL ASSOCIATION

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.

Asse	ets	= Liabili	ities	+ Equit	у
111 Division		211 Salaries/v	,	1	O !!!
Debit	Credit	<u>Debit</u>	Credit	_Debit	<u>Credit</u>
(left)	(right)	(left)	(right)	(left)	(right)
<b>\$50,000</b>	-	\$2,159	\$6,000	-	+
				Revenue	Expenses
				Debit Credit (left) (right) - +	511 Salary Expense  Debit Credit (left) (right) + \$6,000



# APA SOCIAL ASSOCIATION OF THE PROPERTY OF THE

#### **Payroll Example**

**Assets** 

Liabilities

+

**Equity** 

212 Fed Inc Tax Withheld payable

Debit	Credit
(left)	(right)
-	\$1, <b>200</b>

213 State Inc Tax Withheld payable

Debit	Credit	
(left)	(right)	
-	<b>\$300</b>	



# APA SOCIAL ASSOCIA

#### **Payroll Example**

**Assets** 

Liabilities

+

**Equity** 

214 Soc Security Tax Withheld payable

Debit	Credit
(left)	(right)
-	<b>\$372</b>

215 Medicare Tax Withheld payable

Debit	Credit
(left)	(right)
-	\$87 <sup>+</sup>





#### **Payroll Example**

Assets = Liabilities + Equity

#### 216 Health Ins Premiums payable

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





\$3,841

#### Payroll cash distribution/net pay

Debit Credit
\$3.841

8/20/17 Salaries/wages payable (Liability) \$3,841 Cash from Payroll Checking Acct (Asset)

Employees are paid the cash we owe them



#### **Payroll Example**



**Credit** <u>Debit</u>

Salaries/wages payable (Liability) 8/20/17 Division Bank Acct (Asset)

Pay employees for month of July

\$3,841 \$3,841

Asse	ets	= Liabili	ities	+	Equity	′	
111 Division Debit	Bank Acct Credit	211 Salaries/wag	ges payable Credit	_De	ebit	Credit	-
(left) \$50,000	(right) - \$3,841	(left) - <b>\$2,159</b>	(right) + \$6,000	(le	´	(right) +	
		\$3,841		Reven	ue   Credit	Expens 511 Salar Debit	ses <b>y Expense</b> <u>Credi</u> t
		Acct Bal =	<b>\$</b> 0	(left)	(right) +	(left) \$6,000	(right) +





### Employer's tax liabilities; an expense of doing business

		<u>Debit</u>	<u>Credit</u>
8/17/17	ER Payroll tax expense	\$831	
	Social Sec tax payable (Lia	ıbility)	\$372
	Medicare tax payable (Liab	ility	\$ 87
	Fed Unemployment tax pay	yable (Liability)	\$ 48
	State Unemployment tax pa	ayable (Liability)	\$324

Expenses incurred for employer taxes



#### **Payroll Example**



	<u>Debit</u>	<u>Credit</u>
ayroll tax expense	\$831	
Social Sec tax payable (Liability) Medicare tax payable (Liability Fed Unemployment tax payable State Unemployment tax payable Expenses incurred for emp	(Liability) e (Liability)	\$372 \$ 87 \$ 48 \$324

**Assets** Liabilities **Equity** 

Payroll tax expense

111 Division Bank Acct

8/17/17

Debit	Credit
(left)	(right)
. +	- ¢2 Q/1
\$50,000	\$3,841

211 Salaries/wages payable

Debit	Credit
(left)	(right)
\$2,159	\$6,000
\$3,841	

Acct Bal = 
$$$0$$

_D	ebit	Cred	dit
(left)		(righ <b>511 Salār</b> <u>Debit</u>	nt) <b>y Expense</b> <u>Credi</u> t
Reven	ue	(left) \$6,000	(right) +
Debit	<u>Credi</u> t	512 ER Ta	ax Expense
(left)	(right)	<u>Debit</u>	<u>Credi</u> t
-	+	(left)	(right)





#### **Payroll Example**

Assets = Liabilities + Equity

#### 217 ER SS Tax payable

Debit	Credit
(left)	(right)
-	<b>\$372</b>

#### 218 ER Medicare Tax payable

Debit	Credit
(left)	(right)
-	<b>\$87</b>





#### **Payroll Example**

Assets

Liabilities

Equity

219 FUTA Tax payable

Debit	Credit
(left)	(right)
-	\$48

220 SUI Tax payable

Debit	Credit
(left)	(right)
-	<b>\$324</b>





## Paying Employee Taxes and Health Ins

		<u>Debit</u>	Credit
8/20/17	Fed Inc Tax Withheld (Liability) State Inc Tax Withheld (Liability) Soc Sec Tax Withheld (Liability) Med Tax Withheld (Liability) Health Ins Premiums (Liability)	\$1,200 \$ 300 \$ 372 \$ 87 \$ 200	
	Cash from Payroll Checking Acc	ct (Asset)	\$2,159
	Paying taxes that were withhe	eld from employee	es



## 2017 Midwest Payroll Conference **Payroll Example**



8/20/17

Debit 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

Paying taxes that were withheld from employees

**Assets** 

Liabilities

**Equity** 

#### 211 Salaries/wages payable

Debit	Credit	Debit	Credit
(left)	(right)	(left)	(right)
\$50,000	\$3,841 \$2,159	-	\$6,000 \$3, 841

_Debit		Credit	
(left)		(right) 511 Salary Expense Debit Credit	
Revenue		(left) \$6,000	
<u>Debit</u>	<u>Credi</u> t	512 ER Ta	ax Expense
(left)	(right)	<u>Debit</u>	<u>Credi</u> t
-	+	(left)	(right)
		\$ <del>8</del> 31	+





#### **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)
<b>\$300</b>	\$300





#### **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	\$ <del>*</del> 7





#### **Payroll Example**

Assets

Liabilities

+

Equity

216 Health Ins Premiums payable

Debit	Credit
(left)	(right)
\$200	\$ <b>2</b> 00





## Paying the Employer Taxes

		<u>Debit</u>	<u>Credit</u>
8/20/17	Social Sec Tax Payable (Liability) Medicare Tax Payable (Liability) FUTA Tax Payable (Liability) SUTA Payable (Liability)	\$372 \$ 87 \$ 48 \$324	
	Cash from Payroll Checking Acc Paying employer taxes	t (Asset)	\$831



# 2017 Midwest Payroll Conference Payroll Example



8/20/17

Social Sec Tax Payable (Liability)
Medicare Tax Payable (Liability)
FUTA Tax Payable (Liability)
SUTA Payable (Liability)

Cash from Payroll Checking Acct (Asset)

Paying employer taxes

\$831

**Assets** 

=

Liabilities

Equity

**Debit** 

\$372 \$ 87

\$ 48

\$324

111 Division Bank Acct

211 Salaries/wages payable

Debit	Credit
(left)	(right)
\$50,000	\$3,841 \$2,159 \$ 831

Debit	Credit
(left)	(right)
-	\$6,000 \$3,841

•			
_D	ebit	Cred	dit
(le	eft) -	(righ <b>511 Salar</b> Debit	nt) <b>y Expense</b> <u>Credi</u> t
Reven	ue	(left) \$6,000	(right) +
Debit	<u>Credi</u> t	512 ER Ta	ax Expense
(left)	(right)	<u>Debit</u>	<u>Credi</u> t
-	+	(left)	(right)
		\$ <del>8</del> 31	+





#### **Payroll Example**

Assets = Liabilities + Equity

#### 217 ER SS Tax payable

Debit	Credit
(left)	(right)
\$3 <b>7</b> 2	\$3 <b>7</b> 2

#### 218 ER Medicare Tax payable

Debit	Credit
(left)	(right)
\$8 <b>7</b>	\$ <del>*</del> 7





#### **Payroll Example**

Assets = Liabilities + Equity

#### 219 FUTA Tax payable

Debit	Credit
(left)	(right)
<b>\$48</b>	\$ <del>4</del> 8

#### 220 SUI Tax payable

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





#### Accrual -estimated payroll for fiscal period

<u>Debit</u>

Credit

8/31/17 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



#### Payroll Example



<u>Debit</u> <u>Credit</u>

8/31/17 Accrued Payroll Expense

\$30,000

\$30,000

Accrued Payroll Liability

Accrual of 10 days pay at \$3,000 per day

**Assets** Liabilities **Equity** 111 Cash 221 Accrued Payroll Liability Debit Debit Credit Debit Credit Credit (right) (left) (right) (left) (right) (left) 513 Accrued Salary Exp Debit Credit \$150,000 (left) (right) \$30,000 Revenue \$30,000 Debit Credit (left) (right)





# Employer's Accrued Tax Liabilities

		<u>Debit</u>	<u>Credit</u>
8/31/17	Accrued Payroll Tax Expense Accrued SS Tax Expense Accrued Medicare Tax Payable Accrued FUTA Tax Payable Accrued SUI Tax Payable	\$4,155	\$1,860 \$ 435 \$ 240 \$1,620

Expenses accrued for employer taxes



# 2017 Midwest Payroll Conference Payroll Example



		<u>Debit</u>	Credit
8/31/17	Accr ER Tax Expense Accrued SS Tax Payable Accrued Medicare Tax Payable Accrued FUTA Tax Payable Accrued SUI Tax Payable Accrue for ER Taxes	\$4,155	\$1,860 \$ 435 \$ 240 \$1,620

Assets = Liabilities + Equity

#### 221 Accrued Payroll Liability

			,	<i>J</i>	
Debit	Credit	Debit	Credit	_Debit	Credit
(left) \$150,000	(right) -	(left)	(right) + \$30,000	(left) - Revenue	(right)  513 Acct Salary Expense Debit Credit (left) (right)  \$30,000
				Debit Credit (left) (right)	514 Accr ER Tax Expense  Debit Credit
					(left) (right) \$4,155





#### **Payroll Example**

Assets = Liabilities + Equity

#### 222 Accrued SS Tax payable

Debit	Credit
(left)	(right)
-	\$1,860

#### 223 Accrued Medicare payable

Debit	Credit	
(left)	(right)	
_	\$435	





#### **Payroll Example**

**Assets** 

= Liabilities

Equity

224 Accrued FUTA Tax payable

Debit	Credit
(left)	(right)
-	\$240

225 Accrued SUI Tax payable

Debit	Credit
(left)	(right)
-	\$1,620





#### Reverse Accruals in new fiscal period

<u>Debit</u> <u>Credit</u>

9/1/17 Accrued Payroll Liability \$30,000

Accrued Payroll Expense \$30,000

Reverse Salary Accrual



#### 2017 Midwest Payroll Conference **Payroll Example**

Reverse Salary Accrual



9/1/17

Accrued Payroll Liability Accrued Payroll Expense \$30,000

<u>Debit</u>

\$30,000

Asse	ts	= Liabili	ties	+ Equ	ity
111 Division  Debit	Bank Acct Credit	221 Accrued Pa Debit	yroll Liability  Credit	Debit	Credit
(left) \$150,000	(right) -	(left) - \$30,000	(right) + \$30,000	(left) - Revenue	(right)  513 Acc† Salary Expense  Debit Credit (left) (right)  \$30,000 \$30,000
				Debit Credit (left) (right) - +	514 Accr ER Tax Expense  Debit Credit (left) (right) + \$4155





## Reverse employer's accrued tax liabilities

	<u>Debit</u>	<u>Credit</u>
ued Medicare Tax Payable ued FUTA Tax Payable ued SUI Tax Payable	\$1,860 \$ 435 \$ 240 \$1,620	\$4,155
	ued SS Tax Payable ued Medicare Tax Payable ued FUTA Tax Payable ued SUI Tax Payable ayroll tax expense	ued SS Tax Payable \$1,860 ued Medicare Tax Payable \$ 435 ued FUTA Tax Payable \$ 240 ued SUI Tax Payable \$1,620

Reverse expenses accrued for employer tax liability



# 2017 Midwest Payroll Conference Payroll Example



8/31/17 Accrued SS Tax Payable
Accrued Medicare Tax Payable
Accrued FUTA Tax Payable
Accrued SUI Tax Payable
\$1,860
\$435
\$240
\$1,620

Accr ER Tax Expense

Reverse Accrual for ER Taxes

\$4,155

Assets

=

Liabilities

- Equity

Debit

111 Division Bank Acct

Debit	Credit
(left)	(right)
\$150,000	-

221 Accrued Payroll Liability

(right)
30,000

	)ebit	Credit		
		(righ		
(I	eft)	513 Acct	Salary Expense	
	_	<u>Debit</u>	<u>Credi</u> t	
		(left)	(right)	
Reve	nue	\$30 <u>000</u>	\$30,000	
	•	φ <b>3</b> 0,000	φ30,000	
Debit	<u>Credi</u> t	514 Accr	ER Tax Expense	
(left)	(right)	Debit	Credit	

(right)





#### **Payroll Example**

**Assets** 

Liabilities

+

Equity

222 Accrued SS Tax payable

Debit	Credit
(left)	(right)
\$1, <mark>860</mark>	\$1,8 <del>6</del> 0

223 Accrued Medicare payable

Debit	Credit
(left)	(right)
\$435	\$ <del>4</del> 35





#### **Payroll Example**

Assets = Liabilities + Equity

224 Accrued FUTA Tax payable

Debit	Credit
(left)	(right)
\$2 <b>40</b>	\$240

225 Accrued SUI Tax payable

Debit	Credit
(left)	(right)
\$1,6 <b>20</b>	\$1,6 <b>2</b> 0

What other expenses might need to be accrued?





#### **Financial Statements**

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

Assets, Liabilities, Equity (Revenue & Expenses)

Income Statement—Summarizes revenue and expenses for a period of time

Income, Expenses, Retained Earnings, Contributed Capital





#### Questions?

