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)

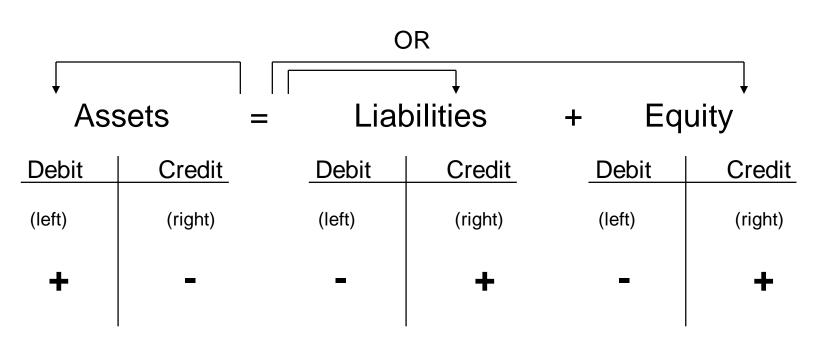**Expenses** – the cost to the owner(s) to make the goods or provide the services

T-Accounts

Debit	Credit
(left)	(right)

Assets **minus** Liabilities **=** Equity

OR

Assets	=	Liabilities	+	Equity

Debit	Credit	Debit	Credit	Debit	Credit
(left)	(right)	(left)	(right)	(left)	(right)
+	**-**	**-**	**+**	**-**	**+**

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

Assets		=	Liabilities		+	Equity	
Debit	Credit		Debit	Credit		Debit	Credit
(left)	(right)		(left)	(right)		(left)	(right)
+	**-**		**-**	**+**		**-**	**+**

		Revenue		Expenses	
		Debit	Credit	Debit	Credit
		(left)	(right)	(left)	(right)
		-	**+**	**-**	**+**

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

Debit +	Credit -
$50,000	

112 Corporate Bank Acct

Debit +	Credit -
	$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

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

Assets   =   Liabilities   +   Equity

211 Salaries/wages payable

Debit	Credit	Debit	Credit	Debit	Credit
(left)	(right)	(left)	(right)	(left)	(right)
+	-	-	+	-	+
$50,000			**$6,000**		

Revenue   Expenses

511 Salary Expense

Debit	Credit	Debit	Credit
(left)	(right)	(left)	(right)
-	+	-	+
		$6,000	

Amount of EE's Pay Owed to Others

		Debit	Credit
8/17/17	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.

2017 Midwest Payroll Conference
Payroll Example

		Debit	Credit
8/17/17	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.

Assets	=	Liabilities	+	Equity

111 Division Bank Acct

Debit	Credit
(left)	(right)
+	-
$50,000	

211 Salaries/wages payable

Debit	Credit
(left)	(right)
-	+
$2,159	$6,000

Debit	Credit
(left)	(right)
-	+

Revenue

Debit	Credit
(left)	(right)
-	+

Expenses

511 Salary Expense

Debit	Credit
(left)	(right)
-	+
$6,000	

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Payroll Example

Assets = Liabilities + Equity

212 Fed Inc Tax Withheld payable

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

213 State Inc Tax Withheld payable

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

Payroll Example

Assets   =   Liabilities   +   Equity

214 Soc Security Tax Withheld payable

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

215 Medicare Tax Withheld payable

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

Payroll Example

Assets		=	Liabilities		+	Equity

216 Health Ins Premiums payable

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

Payroll cash distribution/net pay

		Debit	Credit
8/20/17	Salaries/wages payable (Liability)	$3,841	
	Cash from Payroll Checking Acct (Asset)		$3, 841
	Employees are paid the cash we owe them		

Payroll Example

		Debit	Credit
8/20/17	Salaries/wages payable (Liability)	$3,841	
	Division Bank Acct (Asset)		$3,841
	Pay employees for month of July		

Assets = Liabilities + Equity

111 Division Bank Acct

Debit	Credit
(left)	(right)
+	-
$50,000	**$3,841**

211 Salaries/wages payable

Debit	Credit
(left)	(right)
-	+
$2,159	**$6,000**
$3,841	

Acct Bal = $0

Equity

Debit	Credit
(left)	(right)
-	+

Revenue

Debit	Credit
(left)	(right)
-	+

511 Salary Expense

Debit	Credit
(left)	(right)
-	+
$6,000	

Expenses

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Employer's tax liabilities; an expense of doing business

		Debit	Credit
8/17/17	ER Payroll tax expense	$831	
	Social Sec tax payable (Liability)		$372
	Medicare tax payable (Liability		$ 87
	Fed Unemployment tax payable (Liability)		$ 48
	State Unemployment tax payable (Liability)		$324

Expenses incurred for employer taxes

Payroll Example

		Debit	Credit
8/17/17	Payroll tax expense	$831	
	Social Sec tax payable (Liability)		$372
	Medicare tax payable (Liability		$ 87
	Fed Unemployment tax payable (Liability)		$ 48
	State Unemployment tax payable (Liability)		$324
	Expenses incurred for employer taxes		

Assets   =   Liabilities   +   Equity

111 Division Bank Acct		**211 Salaries/wages payable**			
Debit	Credit	Debit	Credit	Debit	Credit
					(right)
(left)	(right)	(left)	(right)	(left)	**511 Salary Expense**
+	-	-	+	-	Debit | Credit
$50,000	**$3,841**	**$2,159**	**$6,000**		(left) | (right)
				Revenue	- | +
		$3,841			**$6,000**

Debit   Credit   **512 ER Tax Expense**

(left)   (right)   Debit | Credit

-            +   (left) | (right)

-            +

Acct Bal = $0   **$831**

Payroll Example

Assets   =   Liabilities   +   Equity

217 ER SS Tax payable

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

218 ER Medicare Tax payable

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

Payroll Example

Assets   =   Liabilities   +   Equity

219 FUTA Tax payable

Debit	Credit
(left)	(right)
-	**+**
	$48

220 SUI Tax payable

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

Paying Employee Taxes and Health Ins

		Debit	Credit
8/20/17	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

2017 Midwest Payroll Conference
Payroll Example

		Debit	Credit
8/20/17	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	Debit	Credit
(left)	(right)	(left)	(right)	(left)	(right)
+	-	-	+	-	
$50,000	$3,841		$6,000		**511 Salary Expense**
	$2,159		$3, 841	Revenue	

511 Salary Expense

Debit	Credit
(left)	(right)
-	+
$6,000	

Debit	Credit
(left)	(right)
-	+

512 ER Tax Expense

Debit	Credit
(left)	(right)
-	+
$831	

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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**

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

Payroll Example

Assets	=	Liabilities	+	Equity

216 Health Ins Premiums payable

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

Paying the Employer Taxes

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

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

Assets	=	Liabilities	+	Equity

111 Division Bank Acct

Debit	Credit
(left)	(right)
+	-
$50,000	**$3,841**
	$2,159
	$ 831

211 Salaries/wages payable

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

Debit	Credit
(left)	(right)
-	+
Revenue	

511 Salary Expense

Debit	Credit
(left)	(right)
-	+
$6,000	

Debit	Credit
(left)	(right)
-	+

512 ER Tax Expense

Debit	Credit
(left)	(right)
-	+
$831	

Payroll Example

Assets   =   Liabilities   +   Equity

217 ER SS Tax payable

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

218 ER Medicare Tax payable

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

Payroll Example

Assets   =   Liabilities   +   Equity

219 FUTA Tax payable

Debit	Credit
(left)	(right)
-	**+**
$48	**$48**

220 SUI Tax payable

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

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Accrual –estimated payroll for fiscal period

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

		Debit	Credit
8/31/17	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

Debit	Credit
(left)	(right)
+	**-**
$150,000	

221 Accrued Payroll Liability

Debit	Credit
(left)	(right)
-	**+**
	$30,000

Debit	Credit
(left)	(right)
-	

513 Accrued Salary Exp

Debit	Credit
(left)	(right)
-	**+**
$30,000	

Revenue

Debit	Credit
(left)	(right)
-	**+**

Employer's Accrued Tax Liabilities

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

Expenses accrued for employer taxes

Payroll Example

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

Assets   =   Liabilities   +   Equity

221 Accrued Payroll Liability

Debit	Credit	Debit	Credit	Debit	Credit
					(right)
(left)	(right)	(left)	(right)	(left)	**513 Accr Salary Expense**
+	-	-	+	-	
$150,000			**$30,000**	Revenue	

513 Accr Salary Expense

Debit	Credit
(left)	(right)
-	+
$30,000	

Debit	Credit
(left)	(right)
-	+

514 Accr ER Tax Expense

Debit	Credit
(left)	(right)
-	+
$4,155	

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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

		Debit	Credit
9/1/17	Accrued Payroll Liability	$30,000	
	Accrued Payroll Expense		$30,000
	Reverse Salary Accrual		

		Debit	Credit
9/1/17	Accrued Payroll Liability	$30,000	
	Accrued Payroll Expense		$30,000
	Reverse Salary Accrual		

Assets	=	Liabilities	+	Equity

111 Division Bank Acct

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

221 Accrued Payroll Liability

Debit	Credit
(left)	(right)
-	+
$30,000	**$30,000**

Debit	Credit
(left)	(right)
-	

Revenue

Debit	Credit
(left)	(right)
-	+

513 Accr Salary Expense

Debit	Credit
(left)	(right)
-	+
$30,000	**$30,000**

514 Accr ER Tax Expense

Debit	Credit
(left)	(right)
-	+
$4155	

Reverse employer's accrued tax liabilities

		Debit	Credit
9/1/17	Accrued SS Tax Payable	$1,860	
	Accrued Medicare Tax Payable	$ 435	
	Accrued FUTA Tax Payable	$ 240	
	Accrued SUI Tax Payable	$1,620	
	Payroll tax expense		$4,155

Reverse expenses accrued for employer tax liability

		Debit	Credit
8/31/17	Accrued SS Tax Payable	$1,860	
	Accrued Medicare Tax Payable	$ 435	
	Accrued FUTA Tax Payable	$ 240	
	Accrued SUI Tax Payable	$1,620	
	Accr ER Tax Expense		$4,155
	Reverse Accrual for ER Taxes		

Assets	=	Liabilities	+	Equity

111 Division Bank Acct

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

221 Accrued Payroll Liability

Debit	Credit
(left)	(right)
-	+
$30,000	**$30,000**

Debit	Credit
(left)	(right)
-	
Revenue	

513 Accr Salary Expense

Debit	Credit
(left)	(right)
-	+
$30,000	**$30,000**

Debit	Credit
(left)	(right)
-	+

514 Accr ER Tax Expense

Debit	Credit
(left)	(right)
-	+
$4,155	**$4,155**

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**

Payroll Example

Assets   =   Liabilities   +   Equity

224 Accrued FUTA Tax payable

Debit	Credit
(left)	(right)
-	**+**
$240	**$240**

225 Accrued SUI Tax payable

Debit	Credit
(left)	(right)
-	**+**
$1,620	**$1,620**

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?