

# FINANCIAL MANAGEMENT FOR GEORGIA LOCAL UNITS OF ADMINISTRATION

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<b>July 1, 1994</b>	<b>July 1, 1994</b>	<b>I</b>	<b>GAAP Accounting and Financial Reporting Principles</b>
<b>Revision No.</b>	<b>Date Revised</b>	<b>Chapter</b>	<b>Title:</b>
<b>1</b>	<b>August 2008</b>	<b>11</b>	<b>Payroll and Benefit Accounting</b>

## INTRODUCTION

In most local units of administration (LUAs), employee salaries and benefits constitute the single largest cost. Therefore proper control of the payroll function should be established and maintained. Payroll administration can be defined as the initiation, coordination and administration of all the operations and tasks relating to and necessary for the efficient and accurate operation of the payroll function. This would include, but not be limited to, placing the employee on the payroll, timekeeping, verifying and validating the payroll, making and recording the necessary deductions to an employee's pay, issuing the paycheck in a timely manner and the recording and accounting for all of these transactions. A quality payroll system should provide the basis for:

- Accurate work and time reporting;
- Accurate and timely issuance of payroll checks;
- Distribution of salary costs to the appropriate Quality Basic Education Act (QBE) program and
- Accurate and timely tax and benefit reporting.

General payroll and benefit accounting has changed over the years. Tax shelters, and various additional payroll deductions are the primary changes. Finally as accounting systems have become more sophisticated, the distribution of salaries and wages to multiple accounts has become prevalent, particularly as it relates to QBE. The use of a computer system can enhance greatly the required payroll procedures.

The purpose of this chapter is to review the payroll process and determine which accounting entries are required to record the payroll.

## TIMEKEEPING

In many LUAs, the time sheet is the basis for the payroll. Generally each employee is responsible for maintaining an accurate account of hours worked on a time sheet. The time sheet provides the payroll department with the number of hours worked and also aids with the distribution of payroll costs to appropriate cost centers (i.e., the various expenditure accounts). Time sheets will vary in format but usually include the following information:

- Employee name and number
- Pay period
- Dates worked
- Number of hours worked
- Account distribution
- Signatures of employee and supervisor

Substitute teachers often will maintain their own time sheet for a month and have each principal authorize payment as the teacher moves from school to school and assignment to assignment. A sample employee time sheet for a single employee follows:

### Exhibit I-11-1 Sample Time Sheet

Week Of:																							
Monday 3/5/2007				Tuesday 3/6/2007				Wednesday 3/7/2007				Thursday				Friday				Weekly Total			
Lunch				Lunch				Lunch				Lunch											
Star	O	I	Finis	Star	O	I	Finis	Star	O	I	Finis	Star	O	I	Finis	Star	O	I	Finis				
t	ut	n	h	t	ut	n	h	t	ut	n	h	t	ut	n	h	t	ut	n	h	t	ut	n	h
			0.00				0.00				0.00				0.00				0.00	0.00			

In some instances, the supervisor of employees might maintain a single time sheet for all employees responsible to the supervisor. This minimizes the number of time sheets submitted each payroll period and is feasible when all the employees are charged to a single cost center.

## **PAYROLL JOURNAL**

Often, a special journal for payroll is used to record all of the information pertaining to salaries and wages and payroll deductions for each employee. The data included on the payroll journal originates either from period employee time sheets or from the personnel department (usually at the beginning of the fiscal year) for salaried employees (i.e., an employee such as a teacher who receives an annual salary prorated equally over the fiscal year). Information usually included in a payroll journal is as follows:

- Name of employee (i.e., the payee).
- QBE expenditure classifications(s) for the adjusted gross payroll.
- Gross amount of payroll.
- Adjustments to gross (e.g., additions such as stipends or deductions for excessive sick days).
- Adjusted gross payroll (i.e., gross payroll less adjustments to gross).
- Social Security tax (i.e., FICA) computed on adjusted gross payroll up to a maximum dollar amount that is adjusted upward periodically.
- Medicare tax computed on adjusted gross payroll.
- Federal income tax computed on adjusted gross payroll less any taxsheltered amounts (e.g., deferred compensation or tax sheltered annuities).
- State of Georgia income tax computed on adjusted gross payroll usually less any taxsheltered deductions.
- Taxsheltered amounts for the employee. This amount usually is deducted from adjusted gross payroll prior to the computation of state and federal income tax, but usually is subject to FICA and Medicare.
- Georgia Teachers Retirement System (i.e., the amount of employee contributions to retirement plans).
- State Health Benefit Plan (i.e., the amount of employee's share of employee insurance premiums).
- Miscellaneous deductions (e.g., credit union dues, charitable contributions, cafeteria plan, tax liens, child support).

- Total deductions from adjusted gross payroll.
- Net payroll (i.e., the adjusted gross payroll less total deductions).
- Check number of employee payroll check.

A sample payroll journal is presented on the next page and some of its more important aspects are explained below.

## Exhibit I-11-2 Sample Payroll Journal

PAYROLL FINAL REGISTER FOR PAY 03/30/94														
EMP #	CL	CHECK NAME	REG HRS	OT	HRS	GROSS	ANNUITY	FEDERAL	OASDI	HI	NET			
											STATE	RETIRE	AEIC	PAY
10201	07	KENNEDY, MELBA B.				2375.08		276.77	34.44	M	102.63	142.50	1767.66	CHECK # 13845
	GHI Y	YTD	7125.24			830.31		103.32	M	307.89	427.50	5302.98		
		11.00 /16												
		40.08 /29												
		33.00 /16												
		120.24 /29												
-----														
00010	07	LEGGETT, ANGELIA J.				1503.92		105.49			52.74	90.24	1157.35	
	CHECK # 13847	GHI Y	YTD			4511.76		316.47			158.22	270.72	3472.05	
		3.00 /16												
		95.10 /09												
		9.00 /16												
		285.30 /09												
-----														
10012	07	NAIL, KATHY A.				1808.58	50.00	190.78	25.35	M	63.59	108.51	1233.10	
	CHECK # 13850	GHI Y	YTD			5425.74	150.00	572.34	76.05	M	190.77	325.53	3699.30	
		48.35 /09												
		2.00 /16			11.90 / 28									
		145.05 /09			35.70 / 28									
		6.00 /16												
		225.00 /18												
-----														
10013	07	NASH, VIRGINIA V.				2324.42		173.08			64.90	139.47	18808.65	
	CHECK # 13851	GHI Y	YTD			6973.26		519.24			194.70	418.41	5641.95	
		21.50 / 12												
		8.00 / 16			12.82 / 29									
		24.00 / 16			38.46 / 29									
		72.00 / 13												
		24.00 / 16												
		72.00 / 13												
		24.00 / 16												
		72.00 / 13												
-----														

### Gross Payroll

The gross payroll of an employee is determined by contractual agreement (i.e., for those employees retained under contract) or by time sheets (i.e., for those employees paid on a period basis such as hourly or weekly). The gross salary for employees under contract is derived by dividing the contract amount by the number of pay periods within the contract. Hourly employees' gross payroll is computed by multiplying the hourly rate by the number of hours worked.

However calculated, gross payroll should be entered in the payroll register with an appropriate QBE classification. For employees whose duties are related directly to more than one cost center, a proration of that salary is necessary. When the base salary is prorated, the distribution usually is based upon the estimated amount of time used in performing each duty.

There are instances where an employee's normal gross payroll is reduced. An employee may be granted personal leave without pay or may use more than the allowable accumulated sick days. These reductions are entered in the adjustment column on the payroll journal and the reason for the reduction is indicated. The amount in the adjusted gross payroll column is subtracted from the gross payroll resulting in the adjusted gross payroll.

### **Payroll Deductions**

Payroll deductions may be either required or voluntary on behalf of the employee. Income taxes are required deductions while voluntary deductions might include such items as insurance premiums or deferred compensation.

When an employee is hired, an Internal Revenue Service (IRS) form W-4, Employee's Withholding Allowance Certificate, must be completed by the employee. This form provides the information needed to compute the federal income tax deduction and includes the number of personal exemptions the employee is claiming. Very specific instructions accompany the form. This information is used by the LUA to compute the payroll deduction for federal income tax. A similar form is provided by the State of Georgia (G-4).

The tax law allows some payroll deductions to be deducted and the costs paid from gross payroll using pre-tax dollars. In other words, the taxable amount for federal income tax is reduced by the amount of payroll deductions. These deductions might include medical and dental insurance premiums and dependent care expenses.

Written authorization always should be obtained from the employee for voluntary deductions or for changes in deductions to prevent any misunderstanding at a later date.

### **Net Payroll**

The net amount of payroll due each employee is determined by subtracting total deductions from the adjusted gross pay. This amount is entered in the net pay column and a check is written. The check number should be entered in the payroll register for reference.

## **SUMMARIZING THE PAYROLL JOURNAL**

After all entries for a single payroll period are recorded in the payroll journal, the adjusted gross column should be summarized by QBE expenditure classification. One of the advantages of

using a computer system is that it has the capability of summarizing salaries by QBE expenditure classification. Any deductions to be matched by the LUA also should be summarized consistent with the QBE expenditure classification (e.g., by the salary expenditure classification). Any deductions which are not matched only need to be totaled.

## RECORDING THE PAYROLL

After the payroll journal is summarized, the total data must be posted to the general ledger. Most LUAs post the data directly from the payroll journal to the general ledger and the subsidiary expenditure ledger. The journal entry (even though it is made by the computer) to record the payroll is as follows:

<u>Description</u>	<u>Account No.</u>	
	<u>DR</u>	<u>CR</u>
Expenditure control	\$24,648	0602
Social Security Taxes Payable		0477
	\$ 1,866	
Federal Income Tax		0471
	4,897	
State Income Tax		0472
	1,275	
Retirement Payable		0473
	786	
Deferred Compensation Payable		0479
		3,500

Cash in Bank

0101

12,324

*Explanation - Entries equaling the adjusted gross payroll will be charged to each specific QBE expenditure classification. Payroll deductions are reported as liabilities until paid by the LUA.*

The information required for the expenditure ledger comes from the payroll register summary, as do the payroll deductions and withholdings. Individual payroll deductions and withholdings usually are accounted for with separate balance sheet liability accounts.

As indicated above, in a fully integrated computer payroll system, the posting of the various accounts usually occurs automatically. However, the system usually can generate a report which provides how the adjusted gross salary were distributed as well as the distribution of the payroll deductions and the amount of cash disbursed. A sample payroll distribution report is shown below:

### Exhibit I-11-3 Sample Payroll Distribution

PAYROLL GROSS PAY DISTRIBUTION FOR 12/17/93				
LOC	EMP	NAME	AMOUNT	ACCOUNT
		***TOTAL BY FUNCTION	850.00 **	
		***TOTAL BY PROGRAM	50,033.79 ***	
		***TOTAL BY FUND/FISC	50,033.79 ****	
		***TOTAL BY OBJECT	*	
		***TOTAL BY FUNCTION	**	
		***TOTAL BY PROGRAM	***	
		***TOTAL BY FUND/FISC	****	
0006	14042	LEWIS, MELANIE C.	677.67	94 494 0 9990 1000 14000 0000 0 000000
0005	29035	MCEWING, DEBRA	646.00	94 494 0 9990 1000 14000 0000 0 000000
0003	77098	SPIVEY, MELINDA W.	646.00	94 494 0 9990 1000 14000 0000 0 000000
		***TOTAL BY OBJECT	1,969.67 *	
		***TOTAL BY FUNCTION	1,969.67 **	
		***TOTAL BY PROGRAM	1,969.67 ***	
		***TOTAL BY FUND/FISC	1,969.67 ****	

0005	79282	LIVELY, DONNA SEE	100.00	94	544	0	9990	1000	14000	0000	0	000000
0005	79282	LIVELY, DONNA SEE	819.58	94	544	0	9990	1000	14000	0000	0	000000
***TOTAL BY OBJECT			919.58	*								
0005	46901	FREESE, DEBBIE S.	880.00	94	544	0	9990	1000	14000	0000	0	000000
0005	33727	GONZALES, LUIS E.	880.00	94	544	0	9990	1000	14000	0000	0	000000
0005	33727	GONZALES, LUIS E.	560.00	94	544	0	9990	1000	14000	0000	0	000000
0005	14033	PAGE, SUE H.	990.00	94	544	0	9990	1000	14000	0000	0	000000
***TOTAL BY OBJECT			3,310.00	*								
***TOTAL BY FUNCTION			4,229.58	**								
***TOTAL BY PROGRAM			4,229.58	***								
***TOTAL BY FUND/FISC			4,229.58	****								

### LUA's Share of Employee Benefits

FICA and Medicare are the most common benefits that must be matched by LUA's. The LUA's share of FICA and/or Medicare should be charged to the QBE expenditure classification associated with the salary to which it applies, using the 200 object classification. A sample journal entry to record the LUA's share of social security follows:

#### Description

		<u>Account No.</u>	
		<u>DR</u>	<u>CR</u>
Expenditure control			0602
	\$1,866		
Social Security Taxes payable		0477	
	\$ 1,866		

*Explanation - the appropriate expenditure subsidiary account also would be charged. As indicated in Appendix C, the Georgia Department of Education (GA DOE) only requires the reporting of a single object classification, 200. However, LUA's may wish to categorize this object by type of benefit (e.g., FICA, Medicare, insurance, retirement).*

Other benefits of employees also may be matched by the LUA. The same general procedure for recording the matching benefits is used. The inclusion in the payroll journal summary of any benefits that are to be paid by the LUA, regardless of the basis on which they are computed, serves as a reminder that a general journal entry is required for the LUA's matching portion. The liabilities for the deductions withheld from employees' paychecks must be remitted to the



appropriate agencies by the LUA (i.e., the employer) on a timely basis. If they are all paid at the same time, the general journal entry to liquidate the liabilities is as follows:

Description

		<u>Account No.</u>	
		<u>DR</u>	<u>CR</u>
Social Security Taxes Payable	0477	\$1,866	
Cash in bank			0101
			\$ 1,866

**EMPLOYEE EARNINGS RECORD**

An employee earnings record is required to report income for state and federal income tax purposes and other purposes. Generally the record includes personal data for the employee and includes the details of each payroll period for the specific employee. A sample employee earnings record follows:

**Exhibit I-11-4  
Sample Employees Earnings Record**

PAYROLL EARNINGS HISTORY DETAIL - (SINGLE EMPLOYEE)	
REPORT DATE: 04/01/94	
* ACTIVE *	* LOC - 5
	CLASS - 7
	INSTR - 1
	TYPE - F
	GHI
	- Y
EMP #-12345	SS# 111-55-2345 * SEX - F
	ETHNIC - 2
	MARITAL STAT - S PAY
	SCH.#-12 PAYCYCLE-1
ARNOLD, WANDA	



941000105110001100000000000000	299.04	287.38	299.04
941000999039001900000000000000	162.30	155.97	162.30
	64.65		
			1198.61 016351 * / C

The employee earnings record usually is arranged to correspond to the format of the payroll journal. Usually, the individual earnings record provides spaces for recording all of the information needed to calculate the gross payroll for the employee. Usually totals are computed at the end of each calendar quarter, at the end of the calendar year and at the end of the fiscal year. Calendar quarter and yearend totals are required for reporting taxable gross payroll, tax withholdings and/or FICA/Medicare information to the federal government and the State of Georgia. Fiscal year totals are required in connection with the annual audit to prove the accuracy of the amounts paid as compared with salary contracts as applicable.

Normally the employee's earnings record is posted automatically in a computer payroll system.

## SUMMARY

1. In some LUAs, the timesheet may be the basis for determining the amount of the payroll (i.e., the source document).
2. In most LUAs a special journal is used to record the payroll (e.g., the payroll journal).
3. The adjusted gross payroll is the amount charged to the QBE expenditure accounts on the operating statement.
4. Payroll deductions are reported as liabilities on the balance sheet until paid.
5. When an employee is hired, IRS form W4, Employee's Withholding Allowance Certificate must be completed by the employee and it indicates the number of allowances (i.e., exemptions) the employee is claiming.
6. Most computer payroll systems provide the capability of LUAs to change an employee's salary to more than one expenditure account. With QBE classification, this feature is essential.
7. Some of the employees' payroll deductions must be matched by contributions from the LUA (e.g., FICA and Medicare).
8. An employee's earnings records provide a payroll for each employee indicating the gross payroll, payroll deductions withheld and net payroll.