

FINANCIAL MANAGEMENT FOR GEORGIA LOCAL UNITS OF ADMINISTRATION

Date Issued	Effective Date	Section	Title:
July 1, 1994	July 1, 1994	I	GAAP Accounting and Financial Reporting Principles
Revision No.	Date Revised	Chapter	Title:
2	March 2017	I-11	Payroll and Benefit Accounting

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. Income deferral options 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 and the assignment of teaching professionals. It is rare for an LUA to have one teacher assigned to one classroom at one location. With the flexibility LUAs now have to enhance the educational experience of their students, more LUAs are expanding their use of human resources. For example, you may have a certified employee that is assigned as an Academic Coach that targets students in middle and high school. The accounting for that employee could span several QBE programmatic codes and multiple school codes. The split-funding of employees' salaries can be a cumbersome accounting exercise without an automated system to account for the activity using the appropriate account codes.

The purpose of this chapter is to review the payroll process and determine which basic accounting entries are required to record the payroll. Please note that many times, the accounting of payroll is much more complex.

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 (what subject taught, location, etc.)
- Signatures of employee and supervisor

Most school locations utilize a substitute tracking system in which a substitute signs in and the employee that the substitute is replacing is tracked as well. This allows the LUA to match leave records of employees with substitute's schedules.

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 leave without pay).
- Adjusted gross payroll (i.e., gross payroll less adjustments to gross).
- Social Security tax computed on adjusted gross payroll up to a maximum dollar amount that is adjusted upward periodically. See Internal Revenue Service Publication 15 for the annual social security wage limits.

- Medicare tax computed on adjusted gross payroll.
- Federal income tax computed on adjusted gross payroll less any tax-deferred amounts and tax-exempt deductions.
- State of Georgia income tax computed on adjusted gross payroll usually less any tax deferred amounts and tax-exempt deductions.
- Tax-deferred 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 follows. Some of its more important aspects are explained below.

Exhibit I-11-1 Sample Payroll Journal

REPORT ID: PAYR-PAY10C	PAYROLL FINAL REGISTER FOR PAY	11/30/16	PAGE: 1
PERIOD END: 11/30/2016			REPORT DATE: 12/06/2016 07:58
LOCATION 0001 - Location 000001			
EMP # CL CHECK NAME	REG HRS OT HRS	GROSS ANNUITY FEDERAL OASDI HI STATE RETIRE ABIC	NET PAY
89381 08 AG7E, SH7RICE		5607.04 500.00 469.26 322.63 75.45 236.21 336.43	1193.60
CHECK# 5000DD GHI Y YTD		61311.26 5500.00 5129.44 3527.03 824.88 2578.45 3678.77	12871.97
277.96 /09 51.60 /12 73.80 /14 12.28 /15		39.67 /16 1900.00 /18 118.15 /22	
3057.56 /09 567.60 /12 797.50 /14 135.08 /15		443.33 /1620900.00 /18 1299.65 /22	
87942 09 LIES, JUSES		2778.29 50.00 172.16 161.40 37.75 106.53 166.70	1765.42
CHECK# 5018DD GHI Y YTD		27949.39 550.00 1626.78 1613.81 377.44 1024.82 1676.98	17583.13
105.33 /08 42.80 /12 26.88 /14 57.28 /15		86.04 /22	
1158.63 /08 470.80 /12 290.48 /14 630.08 /15		946.44 /22	
88279 12 BUSCH, CHRLESETTA		1056.59	831.28
CHECK# 5002DD GHI Y YTD 312.25		12884.94	10321.87
130.74 /08 19.75 /22		709.69 165.99	
1438.14 /08 217.25 /22			
89950 12 BUSBY, LOGAN		976.65	565.34
CHECK# 5003DD GHI Y YTD 166.75		8298.63	4629.41
340.40 /08		45.96 324.57	
3063.60 /08		75.90 12.23 10.00	
		99.19 60.00	

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 program 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 leave without pay. 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. Federal and state 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. Often

employees have an option to be paid electronically or by check. If an employee is paid by check, the 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. The accounting system has the capability of summarizing salaries by QBE expenditure classification and location. 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 computerized journal entry to record the payroll is as follows:

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Expenditure control	0602	\$24,648	
Social Security Taxes Payable	0477		\$ 1,866
Federal Income Tax Payable	0471		\$ 4,897
Georgia Income Tax Payable	0472		\$ 1,275
Teacher Retirement Payable	0473		\$ 786
Other Payroll Withholdings 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, the posting of the various accounts occurs automatically using the computerized accounting payroll system. However, the system usually can generate a report which provides how the adjusted gross salary was 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-11-2 Sample Payroll Distribution

REPORT ID: PAY20EMP-PAY
REPORT DATE: 12/06/2016

PAYROLL GROSS PAY DISTRIBUTION FOR 11/30/16

PAGE 1

LOC	EMP	NRME	AMOUNT	ACCOUNT
0101	89204	AC9ER, MOSAMMED	1,000.00	17 100 0 1011 1000 11000 0195 1 000000
0195	87290	BU7NO, CH7RLYN	4,069.24	17 100 0 1011 1000 11000 0195 1 000000
0195	89725	DO6IER, DAGE	2,138.12	17 100 0 1011 1000 11000 0195 1 000000
0195	89214	FO7TAIN, LI7DSEY	1,544.69	17 100 0 1011 1000 11000 0195 1 000000
0195	87736	GISMAN, GOSDEN	1,867.84	17 100 0 1011 1000 11000 0195 1 000000
0195	88007	HASWARD, WY9TT	3,201.51	17 100 0 1011 1000 11000 0195 1 000000
0195	87567	MI3LARD, MU3I	1,549.39	17 100 0 1011 1000 11000 0195 1 000000
0195	88607	MO3EY, WE3DOLYN	2,971.90	17 100 0 1011 1000 11000 0195 1 000000
0195	87985	NG5, LESPOLDO	4,316.99	17 100 0 1011 1000 11000 0195 1 000000
0195	87987	PA4RIS, MI4AELA	4,104.57	17 100 0 1011 1000 11000 0195 1 000000
0195	88029	SP5ER, FE5DINAND	2,032.87	17 100 0 1011 1000 11000 0195 1 000000
0195	88029	SP5ER, FE5DINAND	74.60	17 100 0 1011 1000 11000 0195 1 000000
0195	88588	WH3TTEN, SH3RELL	4,717.30	17 100 0 1011 1000 11000 0195 1 000000
*** TOTAL BY OBJECT			33,589.02	+

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:

<u>Description</u>	<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 (GaDOE) 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	Account No.	DR	CR
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-11-3 Sample Employees Earnings Record

REPORT ID: HISTPRT		SMITH CITY BOARD OF EDUCATION						PAGE 2		
REPORT DATE: 12/06/2016		PAYROLL EARNINGS HISTORY DETAIL - BY EMPLOYEE NAME								
+ ACTIVE +		+ LOC- 100	CLASS- 1	INSTR-I	TYPE-F	GHI-Y				
EMP #-87366	SS# *****7366	+ SEX-F	ETHNIC- 2	MARITAL STAT-M	PAY SCH.#-12	PAYCYCLE-1				
AB3EU, MOSTY		+ BIRTH- 9/01/1964	HIRE- 8/05/2013	REHIRE-	TERM-	REASON-				
3680 MAIN STREET		+ CREDIT UNION:	FENS- TRS	FEN AMT/%-	.0600	CHECK/DD? DD				
SMITH, GA 33333		+ FED# EXEMPT 1	WITHHOLD CD- 0	AMT / %	.00	MAR. STAT M	CUR PAY PD 14			
PHONE # 999-555-2672	INCLUDE ON CPI?-Y	+ ST ALLOW M-1 D-00	WITHHOLD CD- 0	AMT / %	.00	PERS STAT B	AEIC			
RACE CODES:	HISPANIC?-N	+ STATE 71003.05	LOCAL 2636.00	OTHER	.00	SEC 125 Y	FICA/MED-Y			
WHITE		+ ANN1 DED 01/CO 00	FEDERAL-Y	STATE-Y	ANN5 DED 00/CO 00	ANN5 DED 00/CO 00				
		+ ANN2 DED 02/CO 00	ANN3 DED 00/CO 00	ANN4 DED 00/CO 00	ANN5 DED 00/CO 00					
ACCOUNT	PAY CODE	RATE	REG-HR	OVT-HR	REG-GR	OVT-GR				
17-100-0-2041-1000-11000-01001-000000	S				5916.92					
17-100-0-2043-1000-11000-01001-000000	S				219.67					
17-100-0-2041-1000-11000-01001-000000	Z									
** EARNINGS HISTORY PERIOD COVERED - 01/01/2016 THRU 12/31/2016 **										
CHK DATE	STATUS	TRN DATE	TOT GROSS	HI-GR	OASDI-GR	NET	BANK	CHECK		
01/29/2016	I / C		6438.66	5988.92	5988.92	4243.78	BR01	244568		
S	16100020411000011000010010000000	10	1/29/2016	5821.49	5414.88	5821.49				
S	16100020431000011000010010000000	11	1/29/2016	219.67	204.33	219.67				
B	16100011001000199000100100000000	43	1/29/2016	397.50	369.71					
		362.47 /82	371.31 /85	86.84 /86	449.74 /87	609.22 /03	274.76 /04	449.74 /09	40.54 /16	
Employer deductions:										
		862.05 /82	371.31 /85	86.84 /86	945.00 /GH					

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 year-end 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 W-4, 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. In addition, the State of Georgia requires Form G-4, State of Georgia Employee's Withholding Allowance Certificate.
6. Most computer payroll systems provide the capability of LUAs to charge 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. This record is used to prepare the required federal Form W-2, Wage and Tax Statement.