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PAYROLL ACCOUNTING

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ABSTRACT

As the industrial revolution expanded so did competition for employees. Employers began to offer benefits to employees and these benefit programs became more convoluted with incentives, matching programs and time based vesting. Payroll accounting is very important for all organization because they have to pay wages/salaries to their workers /employees. At the same time they have to make certain payments in the form of taxes to government authorities. Some of these associated costs were shouldered by the employer and others were a deduction from the employee's regular wages/salaries all in the battle to acquire and retain employees. This paper will to introduce the reader to the meaning and history payroll accounting and factors associated with the various elements of the payroll.

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INTRODUCTION

Accounting systems manages the resources of an organization and they are applied according to the specific needs of the business. Maintaining an appropriate system is vital for succeeding. A standout amongst the most critical errands in maintaining a little business is organizing and completing payroll records. Personnel needs to have the capacity to depend on being paid or a steady premise without deferrals. It is a particular type of accounting concerned with ascertaining and dispensing pay or remuneration for employees of the organization. It is not as basic as it may appear. Contemplation must be made for payroll expenses, wages, salaries, bonuses, wage garnishment (wage garnishment is the process of deducting money from an employee's monetary compensation), payroll cost and taxes, commission, benefits paid by employer and extra time pay. The result of payroll accounting is exact records in regards to the costs connected with wide range of pay and other additional payments and remuneration to employees.

Meaning of Payroll Accounting

Payroll Accounting is the function of calculating and distributing wages, salaries, and withholdings to employees and certain agencies.

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Accounting for Payroll is generally done through different documents such as time sheets, paychecks, and a payroll ledger. Payroll Accounting also involves the process of issuing reports to upper management so that they are able to make informed decisions about the company's labor-cost data. Payroll Accounting is the method of accounting for payroll. Payroll is the aggregate expenditure on wages and salaries incurred by a business in an accounting period. It can also refer to a listing of employees giving details of their pay. Payroll includes the gross pay due to the employee and employer taxes. The gross pay is divided into net pay actually received by the employee and deductions made from the gross pay for employee taxes and other deductions such as pension contributions, healthcare contributions, and union subscriptions. In payroll accounting it is important to distinguish between employee taxes which are deducted from the employees gross pay and are therefore paid by the employee, and employer taxes which are in addition to the gross pay and paid by the employers. Both payroll taxes are usually collected by the employer and paid over to the relevant tax authority.

History of Payroll Accounting

Today employees are paid in monetary form as a reward for putting manpower hours in an organization for production of goods or for providing their services. This is the result of changes in our 5 craziest payroll rules of the past. Over the years, employees have been paid in strange ways. Payroll plays a critical role for every business with an employee, but it has undergone many changes before becoming what it is today. The exact origin of payroll is uncertain, likely beginning in the form of a payment of goods for service. Most suppose that the first salary would have been paid in the Neolithic revolution. The Neolithic revolution was the first agricultural revolution. It was a gradual change from nomadic hunting and gathering communities and bands to agriculture and settlement. Then payment to workers or employees were made as follows:

Employees were paid in beer

The ancient Egyptian economy was based on the redistribution of commodities. Egyptian workers were compensated for work with beer, bread, grain, meat and cloth rations, which were the necessities of life at the time. Some may agree that these are still the basic necessities today. Imagine your employer paid you 385 beers a week instead of your Rs.40,000 per month as salary. But maybe it's best we don't get paid in beer because at least with currency, we can purchase goods/ drink of our choice.

Payroll numbers recorded on inscribed clay tablets

Beer has a role to play in this history of payroll systems too. BBC says some of the earliest writing in the world, called 'cuneiform,' meaning wedge-shaped, was used to record rations. A tablet was used to record worker's daily beer rations. On the clay tablet, beer is represented by an upright jar, and a human head eating from a bowl depicts rations. You can bet your accountant is glad they don't have to use clay tablets for generating year-end reports.

Doubled wages for workers living the "American" way

In the early 1900s, Henry Ford famously doubled his employee's wages, going from $2.25 a day to $5. However, not every employee was able to receive this raise. To determine who among his employees was eligible, a group called the "Socialization Organization" would visit the homes of each employee to determine if they were living according to the standards of Henry Ford. For example:

- Men did not qualify if their wives worked outside of the home.
- Women did not qualify unless they were single or the sole provider for their family.
- Immigrants had to attend classes in order to be "Americanized".
- Men and women were not permitted to drink alcohol or gamble.

We're pretty sure none of these qualifications would fly today, and if your boss has sent people into your home to find out how you live, please contact HR immediately.

Women were paid 53% less than men

During World War II, when women took on male positions as factory workers, engineers, drivers, conductors and nurses, they were compensated with much lower wages. Although the women frequently went on strike, there were limited agreements on equal pay, as many of the employers were able to evade the issue. Women were paid an average of 53% of the wage earned by the men they replaced. Inequalities in the workforce are no longer what they used to be, but unfortunately they still exist. This is one crazy payroll fact that should be history by now.

Soldiers were paid in salt

Roman soldiers were historically paid in coin, but it is also said that they were paid in salt. Some even say the word salary is derived from the word salt, due to the salt allowances of soldiers. The Latin salarium may have originally been "salt-money, soldier's allowance for the purchase of salt," using salarius "pertaining to salt." We are probably glad that we are not paid in salt today, but we might think differently if our food was bland and salt was a scarce commodity.

Payroll Accounting Process

The accounting for payroll involves all aspects of paying compensation and benefits to employees. The outcome of this process is precise records regarding the expenses associated with all types of compensation, as well as timely payments to employees. Though some systems that incorporate more or less automation may not include all of these steps, the general process flow will apply to most payroll systems:

- Keep information of employees in specified form . Every employees including new employees must fill out payroll-specific information as a part of hiring process in specific form prepared by employer and medical insurance forms that may require payroll deductions. Set aside copies of this information in order to include it in the next payroll.
- Collect timecard information. Salaried employees require no change in salaries paid for each payroll, but you must collect and summarize information about the hours worked by non-exempt employees. This may involve having employees scan a badge through a computerized time clock.
- Verify timecard information. Summarize the payroll information just collected and have supervisors verify that employees have correctly recorded their time.
- Summarize wages/salaries due. Multiply the number of hours worked by the pay rate for each employee, also factoring in any overtime or shift differentials.
- Enter employee changes. Employees may ask to have changes made to their paychecks, usually to the number of tax exemptions or pension withholdings. You may need to record much of this prior to calculating taxes, since it impacts the amount of wages/salaries to which taxes are applied.
- Calculate taxes. Use IRS tax tables to determine the amount of taxes to be withheld from employee gross /salaries.
- Calculate /salaries deductions. There may be a number of additional deductions to take away from employee net income, including deductions for medical insurance, life insurance, garnishments, and union dues. You must also track the goal amounts for these deductions, so that you stop deducting once the goal totals are reached.
- Deduct manual payments. If manual payments have already been made to employees, such as advances, then deduct these amounts from the remaining net pay.
- Create a payroll register**.** Summarize the wage/salaries and deduction information for each employee in a payroll register, which you can then summarize to also

create a journal entry to record the payroll. This document is automatically created by all payroll software packages.

- Print paychecks. Print employee paychecks using the information in the payroll register. You normally itemize gross /salaries, deductions, and net pay in a remittance advice that accompanies the paycheck.
- Pay by direct deposit. Notify your direct deposit processor of the amount of any direct deposit payments, and issue remittance advices to employees for these payments.
- Issue paychecks. Have a paymaster issue paychecks to employees, requiring employee identification if there are a large number of employees.
- Deposit withheld taxes. Deposit all withheld payroll taxes and employer matched taxes at a bank that is authorized to handle these transactions.

Payroll Accounting and the Recording of Payroll

Different Countries have their own employer and employee tax situations and the taxes and deductions may have different names, but the basic payroll accounting procedures are the same. As an example of payroll accounting, if gross pay is Rs. 20,000, employee tax is Rs.5,000, and other deductions are Rs.1,000, then the net pay due do the employee is Rs.14,000. The payroll accounting journal entries would be as follows:

Account	Debit (Rs.)	Credit (Rs.)
Gross Wages/salaries	20,000	
Employee tax control		5,000
Other deductions control		1,000
Net pay control		14,000
Total	20,000	20,000

Payroll Accounting – Gross pay

The gross wage/salaries is the expense charged to the income statement. The control accounts are all balance sheet accounts representing liabilities for the amounts deducted from the payroll. The employee tax control represents the amount due to the tax authority, the net pay control represents the amount due to the employee, and finally, the other deductions control is the amount due to whichever body the deduction was made on behalf of, for example, the pension scheme, healthcare scheme or union. The first entry is the expense charged to the income statement, and the second entry is the liability to the tax authorities recorded in the balance sheet control account. Pay the Employee the Net Pay.

When you pay the employees using cash, the entry is to the net wage/salaries control account

Account	Debit (Rs.)	Credit (Rs.)
Cash		14,000
Net pay control	14,000	
Total	14,000	14,000

Payroll Accounting – Gross pay

Any difference on this account should be reconciled by the payroll accounting team, as it means an employee has either been underpaid or overpaid.

Pay the Tax to the Tax Authorities

Next the tax authority is paid and the tax control accounts are cleared using the following payroll tax accounting journal.

Account	Debit (Rs.)	Credit (Rs.)
Cash		8,000
Employee tax control	5,000	
Employer tax control	3,000	
Total	8,000	8,000

Payroll Accounting – Payment to tax authority

Again the control accounts should net to zero after the payments have been made, and any difference needs to be investigated before completing that periods payroll accounting. Pay Over the Deductions. Finally, the other deductions are paid to the appropriate body such as for example a pension scheme, healthcare scheme, or union, and the control accounts are cleared using the following payroll deductions accounting journal.

Account	Debit (Rs.)	Credit (Rs.)
Cash		1,000
Other deductions control	1,000	
Total	1,000	1,000

Payroll Accounting – Payment of other deductions

In the example above, the other deductions can refer to many types of deduction such as pension contributions, healthcare schemes, union subscriptions. If there is more than one type of deduction, it is best to maintain a control account for each one so that the liability to a particular organization is clearly identified in the balance sheet of the business.

Conclusion

In most business organizations, the largest expense accruing on a daily basis is payroll. In the airline industry, for example, labour costs usually represent about 28 percent of total operating expenses. The task of accounting for payroll costs would be an important one simply because of the large amounts involved; however, it is further complicated by the many federal and provincial laws that require employers to maintain certain specific information in their payroll records not only for the business as a whole but also for each individual employee. Frequent reports of wages/salaries paid and amounts withheld must be filed with government authorities. These reports are prepared by every employer and must be accompanied by payment to the government of the amounts withheld from employees and of the payroll taxes levied on the employer.

A basic rule in most business organizations is that every employee must be paid on time, and the payment must be accompanied by a detailed explanation of the computations used in determining the net amount received by the employee. The payroll system must therefore be capable of processing the input data (such as employee names, social insurance numbers, hours worked, pay rates, overtime, and taxes) and producing a prompt and accurate output of pay cheques, payroll records, withholding statements, and reports to governmental authorities. In addition, the payroll system must have built-in safeguards against overpayments to employees, the issuance of duplicate pay cheques, payments to fictitious employees, and the continuance on the payroll of persons who have been terminated as employees

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