

Payroll Management

2024 Edition

Steven M. Bragg, CPA

Table of Contents

| | |
|---|-----------|
| Chapter 1 – Payroll Management | 1 |
| Learning Objectives | 1 |
| Introduction..... | 1 |
| Payroll Cycle Duration | 1 |
| Streamlined Timekeeping | 3 |
| Electronic Payments | 4 |
| Employee Self-Service..... | 4 |
| Manager Self-Service | 4 |
| Transaction Error Analysis | 5 |
| Staff Training Program..... | 5 |
| The Payroll Calendar | 6 |
| Information Confidentiality..... | 7 |
| Summary | 7 |
| Review Questions..... | 9 |
| Review Answers | 10 |
| Chapter 2 – Definition of an Employee | 11 |
| Learning Objectives | 11 |
| Introduction..... | 11 |
| The Employee Defined | 11 |
| Employee Withholding Liability..... | 12 |
| The Independent Contractor Designation | 12 |
| The W-2 Contractor | 13 |
| The Salesperson Designation | 14 |
| Employees of Exempt Organizations..... | 14 |
| Ministers..... | 14 |
| Employee Scenarios | 15 |
| People in Business for Themselves..... | 15 |
| Family Employees | 15 |
| Working Off the Books | 15 |
| Intern Rules | 16 |
| The Certified Professional Employer Organization..... | 16 |
| Summary | 17 |
| Review Questions..... | 18 |
| Review Answers | 19 |
| Chapter 3 – Employee Time Tracking | 21 |
| Learning Objectives | 21 |
| Introduction..... | 21 |
| Time Tracking Scope | 21 |
| Employee Exclusions..... | 22 |
| Data Collection Scope | 23 |
| Handwritten Time Sheets..... | 24 |
| Time Cards..... | 25 |
| Computerized Time Clocks | 25 |
| Biometric Time Clocks | 27 |
| Web-Based Time Tracking..... | 27 |
| Smart Phone Time Tracking..... | 28 |
| Time Keeping Methods Usage Grid..... | 29 |
| Automated Time Tracking Reminders | 29 |
| Summary | 29 |
| Review Questions..... | 30 |
| Review Answers | 31 |
| Chapter 4 – Employee Compensation | 33 |
| Learning Objectives | 33 |
| Introduction..... | 33 |

Table of Contents

| | |
|--|-----------|
| The Difference between Salaries and Wages..... | 33 |
| The Workweek..... | 34 |
| Compensation Definition..... | 34 |
| Supplemental Wages..... | 35 |
| Commission Calculations..... | 36 |
| Commissions Based on Cash Receipts..... | 37 |
| Final Commission Calculations..... | 38 |
| Employee Business Expense Reimbursements..... | 38 |
| Golden Parachute Payments..... | 39 |
| Hourly Rate Plan..... | 39 |
| Idle Time..... | 40 |
| Overtime Pay..... | 40 |
| Payments in Kind..... | 41 |
| Piece Rate Pay..... | 41 |
| Salaries Paid for Partial Periods..... | 42 |
| Sick Pay..... | 43 |
| Tips..... | 43 |
| Vacation Pay..... | 44 |
| The Minimum Wage..... | 45 |
| Summary..... | 45 |
| Review Questions..... | 46 |
| Review Answers..... | 47 |
| Chapter 5 – Employee Benefits..... | 49 |
| Learning Objectives..... | 49 |
| Introduction..... | 49 |
| The Provider and Recipient of Benefits..... | 49 |
| Adoption Assistance..... | 49 |
| Athletic Facilities..... | 50 |
| Cell Phones Provided by Employer..... | 50 |
| De Minimis Benefits..... | 50 |
| Disability Insurance..... | 51 |
| Educational Assistance..... | 51 |
| Employee Discounts..... | 52 |
| Flexible Spending Accounts..... | 52 |
| Health Savings Account..... | 55 |
| Leaves of Absence..... | 56 |
| Life Insurance..... | 57 |
| Lodging on Business Premises..... | 58 |
| Meals..... | 59 |
| Medical Insurance..... | 60 |
| Medical Insurance – COBRA..... | 61 |
| No-Additional-Cost Services..... | 62 |
| Pension Plans..... | 63 |
| Defined Contribution Plan..... | 64 |
| Defined Benefit Plan..... | 65 |
| Personal Retirement Account..... | 66 |
| Retirement Planning Services..... | 66 |
| Stock Options..... | 67 |
| Stock Purchase Plans..... | 68 |
| Transportation Benefits..... | 69 |
| Tuition Reduction..... | 69 |
| Vacation Benefit Reporting..... | 69 |
| Workers' Compensation Insurance..... | 70 |
| Working Condition Benefits..... | 71 |
| Vehicles..... | 71 |
| Education..... | 72 |
| Outplacement Services..... | 72 |
| How to Value Benefits..... | 73 |
| Cents per Mile..... | 73 |

Table of Contents

| | |
|---|------------|
| Commuting | 74 |
| Lease Value | 74 |
| Unsafe Conditions Commuting..... | 76 |
| Rules for Withholding, Depositing, and Reporting Benefits | 76 |
| Benefit Authorization Form..... | 77 |
| Taxability of Benefits..... | 78 |
| Summary..... | 79 |
| Review Questions..... | 80 |
| Review Answers | 81 |
| Chapter 6 – Payroll Deductions | 83 |
| Learning Objectives | 83 |
| Introduction..... | 83 |
| Deductions for the Corporate Benefits Package | 83 |
| Deductions for Payments to Third Parties..... | 85 |
| Charitable Contributions..... | 85 |
| Garnishments Overview..... | 86 |
| Child Support Garnishment..... | 87 |
| Student Loan Garnishment | 87 |
| Tax Garnishment | 87 |
| Union Dues..... | 89 |
| Deductions for Financing Repayments..... | 89 |
| The Reduction of Deductions..... | 90 |
| Garnishment Processing..... | 91 |
| Deduction Management by Employees | 91 |
| Summary..... | 91 |
| Review Questions..... | 93 |
| Review Answers | 94 |
| Chapter 7 – Payroll Taxes | 95 |
| Learning Objectives | 95 |
| Introduction..... | 95 |
| Income Tax Withholding..... | 95 |
| Social Security Tax..... | 98 |
| Medicare Tax..... | 99 |
| Calculating Withholdings..... | 99 |
| Wage Bracket Method | 100 |
| Percentage Method | 101 |
| Average Estimated Wages Method | 102 |
| Cumulative Wages Method | 102 |
| Part-Year Employment Method | 103 |
| Other Methods..... | 103 |
| Earnings Not Subject to Payroll Taxes | 103 |
| Underwithheld Taxes | 104 |
| Overwithheld Taxes | 104 |
| Employee Taxes Paid by the Employer | 104 |
| The Earned Income Credit..... | 106 |
| Tax Deductions for the Self-Employed Person | 107 |
| The Common Paymaster Rule..... | 107 |
| Payroll Taxes for a Successor Employer | 108 |
| Payroll Taxes for Part-Time Employees | 108 |
| State Payroll Taxes..... | 109 |
| Totalization Agreements | 109 |
| Summary..... | 109 |
| Review Questions..... | 110 |
| Review Answers | 111 |
| Chapter 8 – Tax Remittances | 113 |
| Learning Objectives | 113 |
| Introduction..... | 113 |

Table of Contents

| | |
|---|------------|
| Types of Tax Deposit Schedules..... | 113 |
| Monthly Deposit Schedule | 114 |
| Semiweekly Deposit Schedule | 114 |
| Federal Unemployment Deposit Schedule..... | 115 |
| \$100,000 Next-Day Deposit Rule | 115 |
| Accuracy of Deposits Rule | 116 |
| Deposits not on Business Days..... | 116 |
| Remittance Method..... | 117 |
| The Form 941 Quarterly Federal Tax Return..... | 117 |
| Form 941 Discrepancies | 121 |
| Prior Period Adjustments | 122 |
| Federal Tax Deposit Penalties | 122 |
| Trust Fund Recovery Penalty..... | 123 |
| State Tax Remittances..... | 124 |
| Local Tax Remittances | 124 |
| Summary | 124 |
| Review Questions..... | 125 |
| Review Answers | 126 |
| Chapter 9 – Unemployment Taxes..... | 127 |
| Learning Objectives | 127 |
| Introduction..... | 127 |
| Responsibility for Unemployment Tax Payments..... | 127 |
| FUTA Tax Calculation | 127 |
| FUTA Tax Deposits..... | 128 |
| FUTA Tax Payment Timing..... | 128 |
| FUTA Tax Reporting | 128 |
| State Unemployment Taxes..... | 130 |
| Unemployment Benefit Claims | 133 |
| Calculation of the State Unemployment Tax Rate..... | 133 |
| Voluntary Unemployment Contributions | 134 |
| Transferring an Unemployment Experience Rating..... | 135 |
| Summary | 136 |
| Review Questions..... | 137 |
| Review Answers | 138 |
| Chapter 10 – Payments to Employees..... | 139 |
| Learning Objectives | 139 |
| Introduction..... | 139 |
| Payments with Cash | 139 |
| Payments by Check..... | 141 |
| Payments by Direct Deposit..... | 142 |
| Payments by Pay Card | 143 |
| Flexible Spending Account Debit Cards | 143 |
| Unclaimed Wages..... | 144 |
| Summary | 144 |
| Review Questions..... | 145 |
| Review Answers | 146 |
| Chapter 11 – Accounting for Payroll..... | 147 |
| Learning Objectives | 147 |
| Introduction..... | 147 |
| The Accounting Journal Entry | 147 |
| The Chart of Accounts | 148 |
| The General Ledger..... | 149 |
| The Payroll Journal..... | 149 |
| Where to Record Payroll Transactions | 150 |
| Types of Payroll Journal Entries..... | 150 |
| Primary Payroll Journal Entry..... | 151 |
| Accrued Wages | 152 |

Table of Contents

| | |
|--|------------|
| Accrued Bonuses..... | 153 |
| Accrued Commissions..... | 153 |
| Benefit Payments..... | 154 |
| Accrued Benefits..... | 155 |
| Stock Subscriptions..... | 155 |
| Manual Paycheck Entry..... | 156 |
| Employee Advances..... | 156 |
| Accrued Vacation Pay..... | 157 |
| Tax Deposits..... | 158 |
| Payroll Information in the Financial Statements – Wages..... | 158 |
| Payroll Information in the Financial Statements – Payroll Taxes..... | 158 |
| Summary..... | 159 |
| Review Questions..... | 160 |
| Review Answers..... | 161 |
| Chapter 12 – Payroll Reports..... | 163 |
| Learning Objectives..... | 163 |
| Introduction..... | 163 |
| Payroll Register..... | 163 |
| Internal Management Reports..... | 165 |
| Form W-2..... | 166 |
| Form W-3..... | 169 |
| Corrections to Forms W-2 and W-3..... | 171 |
| The Form 1099-NEC..... | 172 |
| The Backup Withholding Rule..... | 174 |
| New Hire Reporting..... | 174 |
| Summary..... | 175 |
| Review Questions..... | 176 |
| Review Answers..... | 177 |
| Chapter 13 – Payroll Recordkeeping..... | 179 |
| Learning Objectives..... | 179 |
| Introduction..... | 179 |
| The Employment Application..... | 179 |
| The Employer Identification Number..... | 180 |
| The Social Security Number..... | 180 |
| Employment Eligibility Verification..... | 183 |
| Deductions and Withholdings..... | 183 |
| The Personnel File..... | 186 |
| Mandated Document Retention..... | 187 |
| Summary..... | 188 |
| Review Questions..... | 189 |
| Review Answers..... | 190 |
| Chapter 14 – Payroll Procedures..... | 191 |
| Learning Objectives..... | 191 |
| Introduction..... | 191 |
| Forms: The Timecard..... | 191 |
| Forms: The Paycheck and Remittance Advice..... | 194 |
| Procedure: Add an Employee..... | 194 |
| Procedure: Timecard Data Collection..... | 195 |
| Procedure: Commission Calculation..... | 195 |
| Procedure: Process Payroll..... | 195 |
| Procedure: Issue Payments to Employees..... | 196 |
| Summary..... | 197 |
| Review Questions..... | 198 |
| Review Answers..... | 199 |

Table of Contents

| | |
|---|------------|
| Chapter 15 – Payroll Controls | 201 |
| Learning Objectives | 201 |
| Introduction..... | 201 |
| General Controls..... | 201 |
| Payroll Calculation Controls | 202 |
| Cash Payment Controls | 203 |
| Check Payment Controls | 204 |
| Direct Deposit Controls | 205 |
| Self-Service Controls | 206 |
| Garnishment Controls | 206 |
| Employee Advances Controls | 206 |
| Vacation Pay Controls | 207 |
| Summary | 207 |
| Review Questions..... | 209 |
| Review Answers | 210 |
| Chapter 16 – Payroll Measurements | 211 |
| Learning Objectives | 211 |
| Introduction..... | 211 |
| Payroll Entries to Headcount Ratio..... | 211 |
| Payroll Transaction Error Rate | 212 |
| Form W-2c to Form W-2 Ratio | 213 |
| Proportion of Manual Checks | 213 |
| Outsourced Payroll Cost per Employee..... | 213 |
| Annualized Compensation per Employee | 214 |
| Net Benefits Cost per Employee | 215 |
| Sales per Person | 216 |
| Profit per Employee | 217 |
| Employee Turnover | 217 |
| Summary | 218 |
| Review Questions..... | 219 |
| Review Answers | 220 |
| Chapter 17 – The Outsourcing Option | 221 |
| Learning Objectives | 221 |
| Introduction..... | 221 |
| Overview of Payroll Outsourcing | 221 |
| Reasons to Outsource Payroll..... | 222 |
| Reasons not to Outsource Payroll..... | 223 |
| The Outsourced Payroll Contract | 223 |
| The Transition to Payroll Outsourcing | 223 |
| Managing Outsourced Payroll | 224 |
| Measuring Outsourced Payroll | 224 |
| Terminating an Outsourcing Arrangement..... | 225 |
| Summary | 225 |
| Review Questions..... | 226 |
| Review Answers | 227 |
| Appendix – 2024 Federal Payroll Tax Calendar | 229 |
| Glossary | 233 |
| Index | 237 |