

Payroll Management

2023 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

Table of Contents

Introduction.....	33
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.....	56
Leaves of Absence.....	56
Life Insurance.....	57
Lodging on Business Premises.....	59
Meals.....	59
Medical Insurance.....	60
Medical Insurance – COBRA.....	62
No-Additional-Cost Services.....	63
Pension Plans.....	64
Defined Contribution Plan.....	64
Defined Benefit Plan.....	65
Personal Retirement Account.....	66
Retirement Planning Services.....	67
Stock Options.....	67
Stock Purchase Plans.....	68
Transportation Benefits.....	69
Tuition Reduction.....	69
Vacation Benefit Reporting.....	70
Workers’ Compensation Insurance.....	70
Working Condition Benefits.....	71
Vehicles.....	71
Education.....	72

Table of Contents

Outplacement Services	72
How to Value Benefits	73
Cents per Mile	73
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	105
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	109
State Payroll Taxes	109
Totalization Agreements	109
Summary	110
Review Questions	111
Review Answers	112

Table of Contents

Chapter 8 – Tax Remittances **113**
 Learning Objectives 113
 Introduction..... 113
 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

Table of Contents

Where to Record Payroll Transactions	150
Types of Payroll Journal Entries.....	150
Primary Payroll Journal Entry.....	151
Accrued Wages	152
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	170
The Form 1099-NEC.....	171
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.....	187
Mandated Document Retention.....	188
Summary	189
Review Questions.....	190
Review Answers	191
Chapter 14 – Payroll Procedures	193
Learning Objectives	193
Introduction.....	193
Forms: The Timecard.....	193
Forms: The Paycheck and Remittance Advice	196
Procedure: Add an Employee	196
Procedure: Timecard Data Collection	197
Procedure: Commission Calculation.....	197
Procedure: Process Payroll.....	197
Procedure: Issue Payments to Employees	198
Summary	199

Table of Contents

Review Questions.....	200
Review Answers	201
Chapter 15 – Payroll Controls.....	203
Learning Objectives	203
Introduction.....	203
General Controls.....	203
Payroll Calculation Controls	204
Cash Payment Controls	205
Check Payment Controls	206
Direct Deposit Controls	207
Self-Service Controls	208
Garnishment Controls	208
Employee Advances Controls	208
Vacation Pay Controls	209
Summary.....	209
Review Questions.....	211
Review Answers	212
Chapter 16 – Payroll Measurements.....	213
Learning Objectives	213
Introduction.....	213
Payroll Entries to Headcount Ratio.....	213
Payroll Transaction Error Rate	214
Form W-2c to Form W-2 Ratio	215
Proportion of Manual Checks	215
Outsourced Payroll Cost per Employee.....	215
Annualized Compensation per Employee	216
Net Benefits Cost per Employee	217
Sales per Person	218
Profit per Employee	219
Employee Turnover	219
Summary.....	220
Review Questions.....	221
Review Answers	222
Chapter 17 – The Outsourcing Option.....	223
Learning Objectives	223
Introduction.....	223
Overview of Payroll Outsourcing	223
Reasons to Outsource Payroll.....	224
Reasons not to Outsource Payroll.....	225
The Outsourced Payroll Contract	225
The Transition to Payroll Outsourcing	225
Managing Outsourced Payroll	226
Measuring Outsourced Payroll	226
Terminating an Outsourcing Arrangement.....	227
Summary.....	227
Review Questions.....	228
Review Answers	229
Appendix – 2022 Federal Payroll Tax Calendar.....	231
Glossary.....	235
Index	239