Lesson Blueprint

Computerized Accounting with QuickBooks® 2019

# Chapter 9: Payroll Processing

## Introduction

* QuickBooks allows you to process payroll and track payroll information for your company’s employees.
* You can establish a file for each employee and then process payroll transactions.
  + These employee files comprise the Employee Center.
* Once you have established an employee file, you can enter transactions for payroll (Activities) in the windows:
  + Pay Employees window
  + Pay Liabilities window
* Every time a company processes payroll for employees in the activities windows, QuickBooks simultaneously updates the information in the Employee Center.
* In addition, QuickBooks changes balance sheet and income statement accounts based on payroll transactions entered in the payroll activities windows.
* In this chapter the sample company, Kristin Raina Interior Designs, will hire and pay two employees beginning April 1, 2021.
  + Kristin Raina will have to establish an employee file for each employee in the Employee Center.

## QuickBooks versus Manual Accounting: Payroll

* In a manual accounting system, employee pay transactions are usually recorded in a Payroll Journal or Register.
  + calculated in the journal:
    - employee’s gross pay
    - tax withholding
    - other payroll deductions
  + using the employee’s background information
    - pay rate
    - marital status
    - state of residency, and so on
  + along with the applicable tax schedules
  + Payroll checks and tax remittance checks are usually recorded in the Cash Payments Journal.
* In QuickBooks, the Employee Center contains background information for each employee, such as
  + name
  + address
  + Social Security number
  + pay rate
  + applicable tax deductions
* When the company processes payroll, the transactions are recorded in the Pay Employees window.
  + QuickBooks uses the information entered in the Employee Center along with the items on the Payroll Item List applicable to the employee to determine gross pay, payroll deductions, and net pay in the Pay Employees window.
* When payroll tax liabilities are paid, the Pay Liabilities window is used to record the transaction.
* These transactions update the Chart of Accounts List (general ledger) while at the same time updating the employee’s file.
* In both manual and computerized systems, payroll reports will be generated and forwarded periodically to the appropriate federal and state tax authorities.
* In QuickBooks, these payroll forms are prepared using the Process Payroll Forms window if you subscribe to a QuickBooks payroll service.
* Below is a comparison of the manual accounting ledger and journals with QuickBooks functions:

|  |  |
| --- | --- |
| **Manual Accounting System** | **QuickBooks** |
| Payroll Journal or Register | Pay Employees windows |

## Accounting for Payroll Transactions

* When a company generates a paycheck, the transaction affects a number of expense and liability accounts.
  + The employee’s gross pay is an expense the company records at the payroll date.
  + Additional expenses for the company include the various taxes imposed on the employer, including, but not limited to
    - Social Security Tax (FICA)
    - Medicare Tax
    - Federal Unemployment Insurance (FUTA)
    - State Unemployment Insurance (SUI)
      * recorded in the appropriate expense accounts at the payroll date
* The employee, at a minimum, will have amounts deducted from his or her paycheck by the employer for
  + FICA
  + Medicare
  + federal income tax
  + state income tax (if applicable)
* These withheld taxes, along with the taxes imposed on the employer, are recorded as liabilities on the books of the company because the company is responsible for remitting these taxes to the appropriate government tax collecting agency at a later date.
* Gross pay less the employee deductions results in a net payroll check to the employee.
* See text for example that illustrates the effect one paycheck has on the general ledger.
* Many companies use a separate checking account for payroll transactions.
  + Periodically, funds are transferred into this account from the operating account.
  + Having a separate checking account helps track payroll transactions.
* In addition, the journal entry for the employer’s payroll tax expenses is recorded on the paycheck date.
  + See text for example of payroll tax expense journal entry.
* When the company remits the employer and employee taxes to the federal and local governments, it records several journal entries.
  + Payment for the employer and employee will be forwarded to the federal government for
    - Social Security tax
    - Medicare tax
    - employee federal withholding
    - FUTA tax
      * See text for the journal entry.
  + Payment for the state withholding tax and the SUI to the state taxing authority responsible for these taxes.
    - usually made with one check
    - In some states, two checks have to be sent because two different tax agencies are responsible.
      * See text for the journal entry.
* Journal entries for the foregoing transactions can be complex since a number of general ledger accounts are affected.
* In addition, federal and state payroll and compliance laws are detailed and burdensome, with costly penalties for noncompliance.
* As a result, payroll accounting is a time-consuming process that can result in costly errors and omissions.
* Prior to the availability of low-cost, off-the-shelf accounting software, most small companies either processed payroll manually or utilized outside computerized payroll services that charged per check.
* With QuickBooks and other general ledger software packages, small companies can
  + process payroll
  + determine gross pay, tax expenses, and tax liabilities
  + prepare employee paychecks and payroll data in compliance with federal and state payroll regulations

## Chapter Problem

* In this chapter, Kristin Raina Interior Designs will hire two employees and begin to process payroll during the month of April 2021.
  + You will enter information for each employee in the Employee Center.
  + The April 1 beginning balances for the company are contained in the company file CH9 Kristin Raina Interior Designs.
* Using steps similar to those used in Chapters 1 through 5, complete the following.
  + Open the company file CH9 Kristin Raina Interior Designs.QBW and enter the password.
  + Make a backup copy of the file using the file name EX9 [*Your Name*] Kristin Raina Interior Designs.
  + Restore the backup copy and enter the password.
  + Change the company name in the file to EX9 [*Your Name*] Kristin Raina Interior Designs.

## Lists/Centers: The Employee Center

* The Employee Center contains a file for each employee of the company.
* Information is indicated for each employee such as
  + name
  + address
  + Social Security number
  + hire date
  + pay rate
  + applicable payroll taxes
* QuickBooks uses the information contained in each employee’s file, along with the information in the Payroll Item List, to calculate the employee’s gross pay, deductions, and net paycheck.
* Like all other Centers in QuickBooks, the Employee Center needs to be updated as
  + new employees are hired
  + employees leave the company
  + information about an employee changes
* Kristin Raina has hired two employees, Harry Renee and Richard Henderson, beginning April 1, 2021.
  + Since the sample company did not previously have employees, the only updating to the Employee List at this time is to add the new employees.
* See text for steps to add an employee.
* See text for practice exercise.
* The Employee Center contains the following parts:

|  |  |
| --- | --- |
| **Employees tab** | Lists all current employees.  You can display active employees, all employees, or only released employees. |
| **Transactions tab** | Lists all transactions for selected employees. |
| **New Employee button** | Used to add a new employee. |
| **Employee Information** | Displays background and transaction information for the employee selected on the Employees tab. |
| **Edit icon** | Used to edit background information for the employee selected on the Employees tab. |

## Activities: The Pay Employees Windows

* Use the Pay Employees windows to calculate gross pay, taxes, and net payroll for employees.
  + This is a daily business activity that is part of the third order of operations in QuickBooks.
* As in a manual accounting system, when you process payroll through the Pay Employees window, a number of general ledger accounts are affected by the transaction.
* As illustrated earlier in the chapter, it is common in a manual accounting system to record payroll using two journal entries.
  + One journal entry records the salaries/wages expense, the employees’ withholdings as liabilities, and the net pay.
  + The second journal entry usually records the employer’s related tax expense and related liabilities.
* In QuickBooks, the transaction is recorded as one compound journal entry instead of two separate journal entries.
* See text for sample journal entry.
  + At the same time you record the transaction, QuickBooks updates the Employee Center and payroll reports to reflect pay earned to date and taxes withheld.
* There are three Pay Employees windows:
  + Enter Payroll Information
    - used to select the employee(s) to be paid at the current pay date
    - Once an employee(s) is selected, you move to the Preview Paycheck window.
  + Preview window (Open Paycheck Detail button)
    - See text for the Preview Paycheck window.
    - The Preview Paycheck window allows you to enter pay and tax information both for company-imposed taxes and employee deductions.
  + Review and Create Paychecks window
    - See text for the Review and Create Paychecks window.
    - The Review and Create Paychecks window allows you to review gross pay and deductions computations before creating a paycheck.
* If the company has subscribed to a QuickBooks payroll service, tax figures for the company and the employee also would be calculated and displayed automatically in this window.
* If you do not subscribe to a service, which is assumed in this text, simply enter the amounts for the taxes.
* See text for steps to enter payroll taxes and withholding manually.

### Paying an Employee

* On April 15, 2021, Kristin Raina will pay the company’s two employees.
* See text for steps to pay an employee.
* Please note the *Medicare Employee Addl tax* item will automatically be displayed in the *Employee Summary* field. Enter 0 as this tax will not be applicable to these employees.

### Correcting an Error in a Paycheck

* If you discover an error in a paycheck after you have created the check, you cannot correct the error in the Preview Paycheck window.
* You have to use the Write Checks – Cash – Payroll window to edit or, if necessary, delete the paycheck and start over.
* See text for steps to correct a paycheck.
  + As an alternative to correcting any errors, you can delete the entire paycheck.
  + Click *Write Checks* on the Banking menu, select the Cash – Payroll account, click Previous until the paycheck is displayed, and then use the Edit menu to delete or void the paycheck.
* See text for practice exercise.

### Additional Payroll Journal Entries

* See text for information to record the payroll for April 30, 2021, in the Pay Employees window for each employee.

## Activities: The Pay Liabilities Window

* Activities identified as paying employees are recorded in the Pay Employees window.
* Subsequently, Activities identified as paying payroll liabilities are then recorded in the Pay Liabilities window.
* As you process paychecks in the Pay Employees windows, QuickBooks tracks all payroll liabilities as they accumulate from each paycheck.
* The Pay Liabilities window displays all payroll liabilities existing at a specified date and allows you to pay each to its appropriate tax-collecting agency.
* The Pay Liabilities window is designed for the payment of federal and state payroll tax liabilities.
* Default accounts are the various payroll tax liability accounts that have been credited during the payroll processing in the Pay Employees window.
* See text for sample journal entry.
* See text for the Pay Payroll Tax Liabilities window.
* Once the period of time is entered, QuickBooks displays all payroll tax liabilities accrued during that period that remain unpaid.
  + Because of this, you can pay all liabilities payable to a given taxing authority with a single check.
* On April 30, 2021, Kristin Raina wishes to remit the federal employer and employee payroll taxes owed to the United States Treasury for the April payroll.
  + The following are all to be remitted to the federal government.
    - company and employee FICA
    - company and employee Medicare tax
    - employee’s FIT
    - employer’s FUTA tax
* See text for steps to pay federal payroll tax liabilities.
  + Like other Write Check windows in QuickBooks, although a check is not printed, the liability is considered paid and a check is recorded in the system.
  + If you make an error in the Pay Liabilities window, you cannot correct it in this window once you have saved the information.
    - You must use the Liability Check – Cash – Payroll window after clicking *Write Checks* at the Banking menu.
    - Click the Cash – Payroll account and click Previous until the check with the error is displayed.
    - Then make any corrections or delete the entire check using the Edit menu.
* See text for practice exercise.

## Reports: Payroll and Accounting Reports and Financial Statements

* Reports, the fourth level of operation in QuickBooks, allow you to display and print a number of payroll reports for
  + internal payroll management
  + government and payroll tax compliance
* Payroll management reports provide the company with valuable information concerning payroll costs, such as
  + gross pay
  + payroll liabilities and withholding
  + employer payroll taxes
* Government compliance reports (Forms 941, W-2, and 940) are replications of
  + federal form 941
    - filed quarterly
  + federal forms W-2 and 940
    - filed annually
* State payroll reports are only available with a QuickBooks Payroll Service, but payroll management reports can provide information needed to complete state and local compliance reports that the company may be required to submit.

### Payroll Management Reports

* The following reports are available in QuickBooks to assist the company in managing and tracking the payroll process.
* These reports are accessed from the Employees & Payroll submenu of the Reports menu.
* They are not required by law and therefore are not forwarded to a government agency.
* Information contained in these reports is sometimes used to complete government-mandated payroll reports, especially at the state or local level.
* You can also view payroll management reports from the Reports menu of the windows for the
  + Payroll Item List
  + Employee Center

#### Payroll Summary report

* + Lists the earnings, deductions, and employer payroll taxes for each employee for a specified period of time.
  + See text for steps to view and print the *Payroll Summary* report.

**Payroll Liability Balances report**

* + Lists all payroll liabilities owed and unpaid for a specified period of time.
  + If liabilities have been accrued and paid, a zero will appear for that liability.
  + See text for steps to view and print the *Payroll Liability Balances* report.

#### Payroll Transaction Detail report

* + Provides detailed information for each payroll transaction (paychecks and payroll liability payments) recorded during the period.
  + The following information is presented in this report:
  + employee salary or wages per paycheck
  + tax withholding
  + net pay
  + employer paid taxes
  + taxes remitted
  + See text for steps to view and print the *Payroll Transaction Detail* report.

#### Employee State Taxes Detail report

* + State payroll reports are only available with a QuickBooks Payroll Service.
  + However, the *Employee State Taxes Detail* report provides most, if not all, of the information most states will require a company to submit on a periodic basis.
  + Information such as type of state tax, amount of income subject to tax, and amount of each tax will be displayed in this report.
  + See text for steps to view and print the *Employee State Taxes Detail* report.
  + Remember that the drill-down feature is available if the zoom glass appears.

### Payroll Government Compliance Reports

* The Employees menu contains the basic government compliance reports that all companies with payroll are required to file with the federal government (IRS).
* You will need to subscribe to a QuickBooks Payroll Service in order to print these reports.

#### Form 941 report

* + Form 941 – Employer’s Quarterly Federal Tax Return is forwarded to the Internal Revenue Service quarterly.
  + This report summarizes
    - total wages paid to all employees for the quarter
    - federal tax withheld
    - employer’s and employee’s Social Security and Medicare tax liabilities

#### Form 940 report

* + Form 940 – Employer’s Annual Federal Unemployment (FUTA) Tax Return is filed annually with the Internal Revenue Service.
  + This form does the following:
    - computes the FUTA tax liability for the company for the year
    - reconciles the amount to the tax payments made by the company toward the tax during the year
  + Form 940 report is accessed from the Employees menu using similar steps to those you used to access Form 941.

#### Form W-2 report

* + Form W-2 – Wage and Tax Statement is prepared annually and furnished to the employee.
  + This report totals the employee’s earnings and tax withholding for the year.
  + The employee uses this form to complete his or her personal income tax return.
  + A copy of this form is also forwarded to the federal government to be reconciled with the quarterly Form 941 filings.
  + W-2 forms are accessed from the Employees menu using similar steps to those you used to access Form 941.

### Accounting Reports and Financial Statements

* At the end of the month, the following reports should be displayed and printed:
  + *Journal* report
  + *Profit & Loss Standard* report
  + *Balance Sheet Standard* report
* See text for the reports.
* The following chart summarizes the general journal transaction types:

|  |  |  |  |
| --- | --- | --- | --- |
| **Type** | **Activity Window** | **System Default Account** | |
| **Debit** | **Credit** |
| Paycheck | Pay Employees | Salaries and Wages Expense  Payroll Tax Expenses | Payroll Withholdings Liabilities  Cash – Payroll |
| Liability Check | Pay Payroll Liabilities | Payroll Withholdings Liabilities | Cash – Payroll |

# Chapter 9 Accounting Terms

employee Someone hired by the company who will receive salary or wages on a regular basis.

payroll journal (register) A journal used to calculate payroll and record payroll entries for each employee.