

SECTION 11: PAYROLL ACCOUNTING

Review Questions

1. Management, stockholders, investors, employees, and auditors would be interested in the financial records of a business.
2. Subsidiary ledgers are used for a single type of account and are subordinate to the general ledger. For example, entries documenting payroll expenses and liabilities may be contained in a subsidiary ledger known as the Payroll Register. Other subsidiary ledgers that contain entries for several accounts might include Accounts Payable, Accounts Receivable, and Fixed Assets.
3. In most companies, a “chart of accounts” lists each account by name and number, with the number being used to identify accounts in an automated system.
4. Asset, Liability, Expense, Revenue, and Equity.
5. If payroll expenses are recorded functionally, entries must be based on the processes supported by the expenses (e.g., manufacturing, sales, administration). This means that the payroll would have to be distributed into different labor distribution expense accounts and a separate Labor Distribution Subsidiary Ledger would have to be kept. Recording payroll expenses by type of pay can be done where the payroll register breaks down employees’ wages into regular and overtime pay.
6. Internal controls
7. Under accrual accounting, revenue is recognized and recorded when earned and expenses are recognized and recorded when incurred. Accrual entries are made at the end of an accounting period to estimate payroll expenses and liabilities incurred between the end of the last payroll period and the accounting period end.
8. Accruals generally are estimates, so they must be corrected by reversing entries during the next accounting period when the actual expenses and liabilities are recorded.
9. In preparing to file quarterly Forms 941 and annual Form 940, employers should verify the following:
 - That FUTA, social security, and Medicare tax deposits for the quarter equal the current tax rates for each, multiplied by the taxable wages for each, taking into account any wages subject to Additional Medicare tax
 - The total Form 941 tax deposits for the quarter equal the liability section for Form 941 (Line 11 of Form 941 equals Line 14 of Form 941 or the “Total liability for the quarter” line of Schedule B, whichever applies), although monthly depositors may pay their lawful \$100 or 2% deposit shortfall with Form 941, in which case total deposits would not equal the liability
 - Total FUTA tax deposits equal Part 4, Line 13 and Part 5, Line 17 of Form 940
10. Earnings per share show the company’s net income divided by the weighted average number of outstanding shares of stock.

11. The purposes of an external audit include:
 - To determine the accuracy of financial statements
 - To depict the company's financial condition and determine whether the notes to financial statements accurately summarize the company's accounting policies and procedures
 - To guard against any possible conflict of interest
 - To safeguard the company's assets
 - To provide an objective opinion as to the fairness of the financial statements
12. The job of a company's internal auditor is to review the efficiency of the organization's internal control procedures and to identify weaknesses in the controls.
13. A balance sheet is a statement of the financial position of a business at a specific period in time. It is an itemized list showing the business's assets, liabilities, and owner's equity.
14. Revenue has the effect of increasing owner's equity.
15. Expenses have the effect of decreasing owner's equity.
16. The journal is used to list all the necessary information about a transaction in one place. The journal is the first accounting record of business transactions and is therefore referred to as a record of original entry.

True or False Questions

1. True
2. True
3. False Payroll taxes are always reported on a calendar year basis.
4. False The income statement summarizes the organization's revenues, expenses, and earnings for the current and preceding fiscal years.
5. True
6. False Accounts payable are liabilities.
7. False Assets must equal liabilities plus owner's equity.
8. False The property owned by a business is known as assets.
9. True
10. True
11. True
12. True
13. True
14. True

The Payroll Source

15. False Revenue appears on the income statement.
16. True
17. True
18. True
19. True
20. True
21. False The general ledger is the record of final entry.
22. False The payroll expense journal will debit an expense account for the labor costs (salary expense) and credit a liability account (accrued salaries/wages).
23. True
24. False Payroll checks that cannot be delivered should be returned to a department other than payroll and be locked up until the employee returns and can receive the check.
25. True
26. True

Multiple Choice Questions

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|-------|-------|
| 1. b | 12. d |
| 2. c | 13. d |
| 3. a | 14. c |
| 4. d | 15. c |
| 5. a | 16. b |
| 6. a | 17. b |
| 7. a | 18. b |
| 8. b | 19. d |
| 9. c | 20. d |
| 10. b | 21. d |
| 11. a | |