

ACCOUNTING & FINANCE / TASK 5: ESTABLISHING PAYROLL PROCEDURES

VE Departments Involved
Accounting, Human Resources

Month for Activity/Time Frame
October/Four days

Outcomes

Employees will:

- Ensure that employees' wages meet federal minimum wage guidelines.
- Prepare a memo attesting that wages paid to employees conform to federal minimum wage guidelines.
- Develop payroll procedures that ensure that employees are paid correctly and that the proper withholdings are deducted from employees' pay.
- Develop procedures that ensure that withholdings from employees' pay are properly accounted for and are remitted to the appropriate recipient.
- Develop procedures to ensure that payroll reporting requirements will be met.
- Prepare work flow charts that diagram the payroll procedures.
- Prepare a memo that identifies the *effective cost* of each employee's hourly wage.

Activities/Strategies

Convene a department meeting to discuss payroll issues for the firm. Have a copy of the company budget and/or the projected income statement available for the meeting. (Refer to Tasks 2 and 3.)

1. Explain that:
 - Employees can not be expected to work unless they receive compensation.
 - Federal minimum wages laws require that all employees be paid a minimum rate.
2. Have the employees:
 - Review the budget and/or projected income statement, and
 - Identify the hourly wages that were used when determining the estimated salary expense for the firm for the year.
3. In order to be certain that these wages in compliance with federal minimum wage laws:
 - Direct the VP to assign a department member to research minimum wage laws.
 - Prepare a memo to the Human Resources department to advise them whether the proposed wages are in compliance. Have a copy of the memo sent to you and the CEO.
4. Inform the department members that:
 - All employees are required to pay income tax (federal and state) and payroll taxes (Social Security and Medicare).
 - Employers are required to withhold employees' income and payroll taxes and send them to the appropriate tax authority (the VEC Tax Center).
 - Employers are required to match certain payroll taxes (Social Security and Medicare).
5. Have the department members access, download and print the payroll register template and blank Employer's Federal Tax Return 941VE Form (with instructions). Have the employees review the forms and ensure that employees understand:
 - The formulas applied to the various cells.
 - What each deduction represents.
 - How net pay is determined.

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6. Explain that the accounting department must determine:
 - How often employees will be paid? (VEC guidelines are to pay employees semi-monthly, not bi-weekly.)
 - How to calculate the correct amount of payroll and income taxes to withhold. (The payroll register template is a spreadsheet that contains formulas that can be used to calculate the amounts.)
 - How to calculate the correct amount of payroll and income taxes to submit to the VEC Tax Center. (Following the instructions and completing the Employer's Federal Tax Return 941VE Form will enable the payroll clerk to calculate the correct amount to remit.)
 - What the difference is between the amount of payroll and income taxes withheld from employees and the amount submitted to the VEC as reported on the 941 Form. (The difference is the employer's payroll tax expense, which is the employer's share of F.I.C.A. and Medicare.)
 - How often income taxes and payroll taxes must be sent to VEC Tax. To whom they are paid. How often the 941VE Form must be submitted. How the information is submitted. (Payroll and income tax withholdings must be submitted to the VEC Tax Center monthly, by the 15th day of the month following the payroll period. Taxes are paid to VEC Tax VEC Bank account number 100026702. A 941VE Form must be filed for each month that a firm pays salary or wages. 941VE data is submitted electronically by accessing the submission form on the VE Web site.)
7. Inform the department members that employees may elect to enroll in the company 401(k) VE plan. (Refer to Human Resources Task 12.) If they do:
 - Employees may contribute a certain percentage of their pay to the 401(k) VE.
 - Employees' contributions are exempt from federal income tax (although still subject to payroll taxes and state and local income taxes).
 - Employees' contributions will be withheld from their pay. The accounting department will be required to keep a record of the cumulative amount of the employees' contributions and the firm's contributions on the employees' behalf. This information must be shared with the human resources department.
 - Employers are required to match employees' 401(k) VE contributions.
 - The accounting department must ensure that the correct amount is remitted to the 401(k) Plan Administrator each month.
8. Since employers are required to match payroll taxes and 401(k) VE contributions, the actual cost of an employee's wages is greater than the hourly rate paid to the employee.
 - Have the employees re-calculate the "effective cost" of each employee's hourly wage rate (the cost including payroll taxes and 401(k) VE contributions).
 - Have the VP write a memo to you and the CEO identifying the "effective cost" of each employee's hourly wage.
9. Have department members schedule a meeting with human resources employees to establish procedures to obtain hourly rates, attendance data and 401(k) contribution percentages to be used to complete the payroll register.
10. After meeting with the human resources employees, have the department members construct a flow chart that diagrams the payroll process. It should contain all actions necessary to complete the payroll register including:
 - The procedure in which attendance data is obtained from the Human Resources department.
 - The procedure to transfer employees' net pay from the company checking account into the employees' checking accounts. (Refer to Accounting and Finance Tasks 11 and 12.)
 - The procedure to combine the information in the semi-monthly payroll registers into a monthly payroll register. (Payroll is prepared semi-monthly, but the 941VE Form is prepared and submitted only monthly.)
 - The procedure to complete and submit the Form 941 information on the VE Web site.
 - The procedure to pay all withholding and payroll taxes to the VEC Tax bank account.

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- The procedure to maintain an accurate record of employees' and the firm's 401(k) contributions.
- The procedure to remit 401(k) contributions to the 401(k) plan administrator.
- A strategy to store the payroll data noting that all payroll data must be summarized and reported at the end of the calendar year. (Refer to the tasks that address the preparation of W2s and W3s.)

Internet Activity

- Research federal minimum wage guidelines.
- Research Internal Revenue Service and accounting organization web sites for payroll and Form 941 information.
- Submit payroll information to the VEC through the VE Web site.
- Pay payroll and income taxes to the VEC Tax using online banking software.

Materials/Resources

- VE payroll register template
- Employer's Federal Tax Return 941VE Form and instructions
- AICPA <http://www.aicpa.org> (American Institute of Certified Public Accountants)
- NYSSCPA <http://www.nysscpa.org> (New York State Society of Certified Public Accountants)
- IRS <http://www.irs.gov> (Internal Revenue Service, Department of the Treasury)

Mastery and Assessment

- A memo to the human resources has been prepared attesting that the proposed wage rates meet federal minimum wage guidelines.
- Work flow charts that diagram the payroll process have been prepared.
- A memo to the CEO identifying the cost of each employee's wages (or salary) to include all payroll taxes and 401(k) contributions has been prepared.