

REGULAR PAYROLL ACCOUNTING

Millersville University uses the Human Resource System (HRS) to handle its payroll process for both regular employees and student employees. The Human Resource Information System (HRIS) office of the Pennsylvania State System of Higher Education (SSHE) maintains this system. The system resides on Millersville's mainframe computer and is accessed by all SSHE institutions.

While the SSHE HRIS office is responsible for the overall coordination of the payroll process for the entire system, each University's Payroll Office performs local work. These offices are responsible for processing new hires and retirements, processing time-sheets, posting changes to payroll records, initiating payroll advances, maintaining payroll files, distributing checks, accounting for leave, etc.

Regular Employee Payroll

The Millersville University Payroll Office, when authorized by the Human Resource Department and/or the appropriate University officials, makes necessary updates (add or change) to the employee records in HRS. Employees are paid biweekly, alternating between the regular and student employees.

The SSHE HRIS office determines the cash requirement for a given pay date, initiates cash transfers from the University's central bank account into the SSHE Payroll account, and sends e-mails to notify the Accounting Office of the total payroll cost for the pay period. The Accounting Office posts cash disbursement entry to BFS, debiting the Payroll Clearing account (Dr fund 1403-1177) and crediting cash (Cr fund 1403-1100). Payroll messages are attached to the entry form and filed in the Cash Disbursement folder.

Pay dates normally fall on Friday. The Payroll Office receives payroll checks on Tuesday. The Information Technology center downloads the payroll file from HRS and feeds it to BFS on the pay date (Friday). The payroll accounting feed program is run against BFS and a summary of charge transactions for salaries, wages, and benefits is debited to the employees' home organization code with the offset credited to the Payroll Clearing account (Cr. fund 1403-1177). Upon completion of the process, the Clearing Account should have a zero balance.

Payroll Tax Liabilities

The SSHE HRIS office transfers all payroll cash to the SSHE Payroll bank account on the pay date and handles all of the deduction accounting for the Universities. The prorated fees for this service are charged as an expense for professional service/honoraria (7150) within the SSHE Charge organization, 49701. Interest earned on the float amount is distributed back to the universities based on payroll cost. The HRIS office handles all of the tax reporting and makes the required payments for taxes withheld to all taxing authorities such as the Internal Revenue Service, State, and Local Tax agencies, and the year-end W-2 reporting.

Student Payroll

The accounting for student payroll is handled in the same fashion as the regular payroll. Fund 1403, account 1178 Student Payroll Clearing, is used for monitoring the student payroll activities.

Payroll Feed for Labor Distribution

The labor distribution file is available by the Tuesday before the pay date. The Information Technology staff downloads the file and schedules the feed into BFS. Generally, the payroll feed transactions debit the salary or benefit expenses and credit the Payroll Clearing account.

When we disburse cash for the payday items, post cash disbursement entry debiting the Payroll Clearing account and crediting Cash. If no deductions liabilities remain the clearing code (1177/1178) would be zeroed out. If there is a balance, it must be examined.

A labor distribution report is generated with each feed. The Accounting Office runs a Brio report against the labor feed each pay period and maintains a copy for audit purposes.

Payroll Refunds

When payroll overpayments occur, it becomes necessary to refund the incorrect payroll check(s) back through the payroll system when payroll deduction from future pays are not possible. The SSHE HRIS office processes refunds monthly for staff and quarterly for students. The SSHE HRIS office transfers the funds to the University as they receive them. Pay day (net pay) items are generally refunded immediately. SSHE refunds taxes and other amounts withheld as they receive them. Waiting several months is typical before the University receives the entire refund. This process takes longer for student refunds.

The Payroll Office will give the Accounting Office a completed Refund Worksheet or a "Refund Processing for Difference Pay" form. This form provides the details of the refund including the name of the person involved, their department and the salary and deduction details. When the SSHE HRIS office processes the refund batches, it generates report EBC341 that lists the details of the refunds by individual and amounts. The University's payroll office provides a copy to the accounting department. Use this copy to track the receipt of funds from the SSHE HRIS office. File the EBC341 and the "Refund Processing for Difference Pay" form together in the Payroll Refunds Receivable file.

Payroll Refunds -Establishing the Receivable

Using the Refund Worksheet or the "Refund Processing for Difference Pay" form generated by the University's Payroll Office, the Accounting Department establishes a refund receivable with the following journal entry (with a PRXXXX journal entry reference):

Dr. fund 1403-1350	\$500.00 (Gross Pay + University paid benefits)
Cr. XXXXXX-600X	\$373.00 (Net Pay or Pay day Items)
Cr. XXXXXX-600X	\$ 40.00 (Federal Tax withheld)
Cr. XXXXXX-600X	\$ 10.00 (State Tax withheld)
Cr. XXXXXX-600X	\$ 20.00 (FICA withheld)
Cr. XXXXXX-600X	\$ 5.00 (Medicare withheld)
Cr. XXXXXX-600X	\$ 2.00 (Local Tax withheld)
Cr. XXXXXX-684X	\$ 20.00 (FICA Benefit)
Cr. XXXXXX-684X	\$ 5.00 (Medicare Benefit)
Cr. XXXXXX-681X	\$ 25.00 (University retirement contribution)

and Calculate SWIF on each net check amount by multiplying the current SWIF rate by the gross pay amount.

Dr. fund 1401-2603	\$ 1.00 (Worker's Comp Premiums)
Cr. XXXXXX-68XX	\$ 1.00 (SWIF)

Where XXXXXX represents the employee's home department and 68XX, the appropriate workers' compensation account. .

The description on each line of the journal entry should contain the person's name and a short description of the deduction (ig., Smith, J. Pay Items). Because SSHE HRIS office will refund the various taxes and net pay items at different times, including a separate line each type of deduction and benefit for ease of reconciliation is important. The payroll department assigns a refund number to each form (RXXX for staff and SXXX for students). Include the refund number in the 2nd reference field for all journal entries processed relating to a refund.

Payroll Refunds - Accounting for Cash Refunded

As amounts are refunded, the SSHE HRIS office will send an e-mail listing the type of refund and the total amount of the refund. They do not provide a list of individuals to whom the refund applies. To properly reconcile the refund account, highlight each amount received on the EBC341 and note the date the University receives the cash. By comparing the type of refund (state tax) to the amounts not highlighted on the EBC341, one can generally determine to whom the refund applies.

Enter the amount on the e-mail message for Millersville University to BFS as a cash receipt entry (with a CRXXXX journal entry reference):

Dr. Cash	\$500.00 (Amount of cash refunded)
Cr. Fund 1403-1350	\$200.00 (Smith St Tax Ref)
Cr. Fund 1403-1350	\$300.00 (Jones St Tax Ref)

Conversion Pay Receivable

In the past, employees were paid on the pay date immediately following their employment. SSHE changed this so that two weeks pay was withheld. In January 1985, to put every employee on the same status and avoid having to withhold a pay from the earlier group, the SSHE universities made a onetime pay advance to these employees. The amount advanced to each affected employee is known as the Conversion Pay Receivable and will be deducted from the employee's last paycheck upon separation from the University. Millersville tracks its Conversion Pay Receivable in fund 1100, account 1810. The Payroll Office is responsible for notifying the

Accounting Office of any termination of employment of an employee with a conversion pay liability. When SSHE deducts the amount of advance from the employee's last paycheck, a journal entry is processed to debit the payroll expense and credit the conversion pay receivable. See the example below.

To record the advance in fiscal year 1984-85:

Dr. Conversion Pay Receivable	\$ 500
Cr. Cash	\$ 500

Upon termination of employment:

Dr. Expense	\$1000
Cr. Conversion Pay Receivable	\$ 500
Cr. Cash	\$ 500

In addition, the Conversion Pay Receivable worksheet is updated to reflect the funds recouped.

Payroll Deferrals

Payroll deferrals result from the treatment of the summer session pays. The summer session overlaps fiscal years and is reported totally in the following fiscal year, where the majority of the program is conducted. Both revenues earned and expenditures incurred for summer sessions up to June 30 should be deferred (charged) to the ensuing fiscal year. When summer session payroll cost is **paid before June 30**, the following transactions are recorded through the payroll feed process.

Dr. Summer Salary Expense	\$5,000
Cr. Cash	\$5,000

Adjust the entries above as follows,

Dr. Deferred Charge (fund 1100-1580)	\$5,000
Cr. Summer Salary Expense	\$5,000

In effect, we have debited the deferred charge and credited cash. Post the deferred charge, an expenditure related to activity of future period, to the General Ledger account whose operating ledger had been charged with the expenses. Within the Current Unrestricted Fund, debit the deferred charge to fund 1100-1580. Credit the expense to individual organization code for monitoring budgets and preparing the common cost accounting data. Faculty members whose pay is deferred are identified on the payroll voucher. If the labor distribution file can be charged directly to the following fiscal year, only the following entries would be recorded.

Dr. Deferred Charge (fund 1100-1580)	\$5,000
Cr. Cash	\$5,000

The Deferred Charge entries are reversed in the new fiscal year. Reverse Deferred Charges paid before June 30 as follows,

Dr. Payroll Clearing	\$5,000
Cr. Deferred Charge	\$5,000

When the labor feed is processed, the Summer Salary Expense is charged to the departmental accounts and the Payroll Clearing will be reduced to zero.

Employees who work during the summer session prior to June 30 are entitled to compensation. If all or part of the salary and benefits are **paid after June 30**, in the new fiscal year, an accrual must be set up to recognize the prorated accrued liability based on the number of days falling in the old year. Normally the following transactions take place:

Dr. Accrued Summer Salary Expense	\$5,000
Cr. Accrued Liability	\$5,000

In the above situation, since the accrued expense is later deferred, entries can be made to directly debit a deferred charge and credit an accrued liability. We refer to this set of entries as the Accrued/ Deferred Payroll Transactions.

Dr. Deferred Charge	\$5,000
Cr. Accrued Liability	\$5,000

The deferred/accrual entries are reversed in the new year.

Dr. Payroll Accrual	\$5,000
Cr. Deferred Charge	\$5,000

The labor distribution feed debits the Salary Expense and credits the Payroll Clearing as follows,

Dr Expense	\$5,000
Cr. Payroll Clearing	\$5,000

On the pay date, we post a Cash Disbursement entry to debit Payroll Clearing and credit the Cash account.

The Payroll office processes summer pay separately from the regular session pay. Summer Salaries **paid before June 30** can be fed directly to the new fiscal year. Essentially, two different labor feeds are created; one that we will feed to the current fiscal year and one with the Summer Salaries being held and eventually fed to the new fiscal year. This procedure eliminates some of the journal entries mentioned at the beginning of this section. The only entry that would need to be done is a debit to Deferred Charge and a credit to Cash. This is usually done with one entry once we know the total amount of Summer Salaries paid before June 30.

Payroll Accruals

In addition to its summer salary accruals, Millersville University accrues all other payroll costs earned by its employees and not paid by the yearend date, June 30.

Student Payroll Accrual

For student payroll, determine the accrual from the timesheets for the unpaid student hours through June 30. Multiply the number of hours worked in a given department through June 30 by the rate of pay to yield the gross accrued student payroll expense. Depending on the types of pay (regular wage or graduate assistance), charge individual organization codes with the student wage expense and credit the accrued liability account in the appropriate fund.

Dr. Accrued Student Wage	\$2,000
Cr. Accrued Liability	\$2,000

Regular Payroll Accrual

The SSHE HRIS OFFICE provides a payroll schedule for year-end processing indicating how the HRS System will break down the labor feeds to the current fiscal year and the new fiscal year by creating two different labor feeds. A sample schedule follows. The chart shows the last **pay date** in June feeds all salary and benefits to the current fiscal year except Summer School salaries and benefits, which we eventually post to the new fiscal year.

With respect to the first **pay date** in July, post all salaries and those benefits which are calculated by a percentage (Retirement, Social Security and SWIF) to the current fiscal year and the benefits which are based on a flat rate (Health & Welfare, Medical Hospital, Annuitant, and Group Life Insurance) are posted to the new fiscal year except Summer Salaries which we post to the new fiscal year. 20 pay option faculty of course would have no salaries, so post only the benefits based on flat rates to the new year.

With respect to the second **pay date** in July, salary and those benefits based on percentages are split according to the number of days in the current fiscal year, and the number of days in the new fiscal year. The flat-rate benefits are automatically charged to the new year. This applies to 20 pay option faculty and non-instructional faculty/staff. For 26 pay option faculty, salary and those benefits based on percentages are posted 100% to the current year and the benefits based on percentages are posted to the new year.

Though the next three **pay dates** for the 26 pay option faculty appear on the attached sheet as feeding to the old year, we feed this tape to the new year due to timing. This requires that we accrue salaries and those benefits based on percentages for the 26 pay period faculty because the individual actually earned these wages during the current fiscal year. To accomplish this task, a focus report is generated using the most recent tape in PC Focus from HRS, selecting only those employees whose pay option is equal to "A." Besides salary, we also pull the benefits based on percentages. Transfer this file to an Excel worksheet where it can be formatted in the BFS layout to be fed as journal entry transactions. Use the journal entry reference number "ACXXXXX." Because this file consists of only one pay period, we need to multiply the salary and benefit information by three to cover the last three pay periods. Remember to change the formulas to values before

transferring the file to CMS for the journal entry feed.

Other payroll accruals we might encounter are for dual employment, individualized instruction, overloads, overtime, annual and sick leave payout, etc. that would have been earned before June 30, but were not paid until after the last **pay date** in July. Because the normal payroll feed process will post the salary and benefits to the new fiscal year, make an accrual entry to post the salary and the percentage-based benefits back to the current fiscal year. The Payroll Office will notify the Accounting Office of these situations as they encounter them. Few of these entries are required.

The entries for Payroll Accruals are as follows:

Dr	Appropriate Salary Expense (Home Organization code - 6XXX)
Dr	Retirement (Home Organization code-681X)
Dr	Social Security (Home Organization code-684X)
Dr	SWIF (Home Organization code-686X)
Cr	Accrued Payroll (fund 1403-2210) - for all salary and benefits except SWIF
Cr	Employer Share-SWIF (1401-2603)

To reduce the number of entries required, these entries can be subtotaled by department on the excel spreadsheet before uploading the journal entries. These entries need to be reversed in the new fiscal year.