

A STUDY OF  
PAYROLL ACCOUNTING AND PROCEDURES

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By

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## CHAPTER I

### INTRODUCTION

#### The Problem

In recent years there has been a very pronounced growth in the size and importance of the payroll department of the American factory. Fifteen years ago the payroll department was a very small portion of the cost accounting division and received little attention except on pay day. In those days preparation of the payroll was extremely simple. Except for scattered exceptions, the hours were totaled, multiplied by the rate per hour, and the check was written for the product. The process for salaried personnel was even simpler. Since they were paid the same every pay day, their checks were often written days ahead of time to avoid the pay day rush. There were no periodic reports to be made, no compulsory deductions from the wages, and no records required for purposes other than to satisfy the employer's desires.

The ease with which the payroll was prepared was disrupted in 1935, however, by the passage of the Federal Social Security Act. The passage of this act marked the beginning of a period of rapid growth in the importance of the payroll department, and this growth has continued steadily to the present date.

The importance of proper payroll procedure can be fully grasped only by a consideration of the various parties interested in the payroll. Primary interest in payroll accounting is, of course, centered in the worker who wants his pay and the employer who wants a record of what he received for what he paid out. These represent internal relationships, but there are also external parties whose interests are generally of the regulatory administrative type.

To an increasing extent in recent years, external parties have acquired a legal or moral interest in the payroll. Probably most important among these is the federal and state governments' requirements in connection with old age and survivors' insurance deductions, unemployment insurance deductions, contributions by the employer toward old age and unemployment insurance, and individual earnings record. Also, in some states employers must report additions to and separations from the payroll, in connection with the administration of the laws of these states regarding partial, seasonal, and intermittent employment. Sufficient records must be kept to satisfy the requirements of governmental authorities and to make audits possible. Even though an employer may consider himself exempt from social security regulations, he must keep records to prove that he is exempt. Information returns must be filed with the Collector of Internal Revenue covering payments made to



workers; adequate information for these returns must be found in the payroll records. Another reason for detailed payroll records are the laws concerning the collection at source of federal and state income taxes. The requirements of the Fair Labor Standards Act of 1938, commonly called "The Wage and Hour Law", must be met. This establishes minimum ages of employees, maximum hours of work without extra compensation, and minimum rates of pay to be observed under certain conditions. Payroll records of subject employers should be kept in such condition that compliance with this law can be verified by government inspectors. There is a growing tendency to allot pay for various purposes, such as savings bank deposits, insurance premiums, investment securities, purchase of tools, payments for rent on company-owned homes, union dues, etc. The records must be adequate to account for all of these items and any other items that might arise in a particular business. /

The payroll is of utmost importance to the employee for obvious reasons. Modern industrialism recognizes that the relationship between employer and employee is more than a commercial transaction of buying time for cash. The pay envelope or pay check is a direct recurring point of contact between management and workers, and it affords management an opportunity for building up goodwill. While the worker is interested primarily in the size of his periodic earnings, the relationship between employer and employee may be

strengthened by positive means, such as the establishment of insurance, thrift, pension, and other pay allotment plans; also the relationship may be strengthened by negative means, such as the avoidance of dissatisfaction due to pay disputes resulting from carelessly and inaccurately prepared payrolls or the employment of unduly complex wage payment plans.

Perhaps of greatest importance is the need for adequate records to provide the information desired by management itself. Modern industrial operation requires a scientifically operated payroll system. In addition to paying the workers and satisfying all external interests, the individual employer is interested in labor cost accumulation and analyses for control purposes. Payroll departments must meet the problems of mass production, incentive wage payment plans, and the need for accurate costs. They must handle these problems economically and promptly.

With all these factors to be considered, it is obvious that the payroll records can become over-complicated unless special precautions are taken. The problem, therefore, is to determine how adequate records can be kept to satisfy the requirements of the existing legislation as well as the desires of the employer and yet keep the records as simple as possible, thereby maintaining overhead costs at a minimum. As stated by Haskell and Robnett: "The two pressures of promptness and economy frequently work at cross-purposes, particularly in situations where all workers

are paid on the same day".<sup>1</sup> It will be the purpose of this thesis to show how records adequate for every normal need may be kept with a minimum of effort and expense.

### Need for the Study

Since so much confusion has arisen in recent years as a result of the many complications in modern payroll accounting, it is felt that a study which considers each of these problems separately, yet keeps a comprehensive goal of simplicity in mind, would be very helpfull to employers, whether they are employers of one or many. At the present time there is no comprehensive summary of this information available.

### Delimitations

It is not intended to exhaust all the possibilities in solving these problems, but in most cases a procedure will be offered which might be adjusted to fit almost any factory's payroll division. Also, it will be impossible in this thesis to discuss at any length the various laws and their legal aspects. Only the most important provisions are mentioned; these are mentioned to show how the payroll problems presented thereby are solved. These various federal and

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<sup>1</sup>Robert Haskell and Ronald Robnett, "Some Applications of Duplicating Methods," N.A.C.A. Bulletin, Vol. 21, p. 1399.

state laws should be consulted by the one in charge of the individual payroll department and read carefully by them in order to insure compliance. As will be shown later, failure to do so may be extremely serious for a number of reasons.

### Definition

Lang defines payroll accounting as that branch of the accounting or cost accounting department's work concerned with the preparation of the periodic payrolls and their recording on the books of account.<sup>2</sup> It involves the entire procedure connected with translating plant time or plant production into payroll dollars. It also includes procedures in connection with the many adjustments to an individual's pay made necessary under modern conditions. This meaning of payroll accounting is to be understood when the term is used throughout this thesis.

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<sup>2</sup>Theodore Lang, Cost Accountants' Handbook, p. 765.

## CHAPTER II

### ORGANIZATION AND DUTIES OF THE PAYROLL DEPARTMENT

The great volume of work connected with payroll administration involves four distinct functions:

1. Hiring, discharging, or transferring of employees, and changes in rates of pay,
2. Accumulation of time data,
3. Preparation of the payroll,
4. Disbursing of the payroll.

Supplemental functions include the determination of labor costs and the independent audit of all of the above through the office of the controller. The work of the four branches or functions must be so organized and related as to be in accord with sound principles of internal check. Local conditions dictate the exact organizational details so that standardization in this respect is not usually possible.

All of these functions, however, are not performed by the payroll department itself. The function of hiring, discharging, etc., is performed by a separate personnel department in which all rates of pay, not only initial pay but increases and decreases, are agreed upon between employer and employee. These agreed rates are then passed to the payroll department and become the authority for that department in calculating payrolls. From the point of view of internal

check it is desirable that payroll additions for all new employees, deductions for released employees, and changes during the period of employment be authorized by the personnel department. This record should be made at least in duplicate. One copy should be retained in the personnel department; the other should be forwarded to the payroll department. Subsequently, when the payroll is audited, a comparison of the data kept in the payroll and personnel departments provides a check against payments to fictitious persons or unauthorized changes in rates of pay.

The accumulation of time data is performed by the time-keeping department. The latter may be a separate department, or it may be combined with the dispatching function. In the latter event the timekeeping function is undoubtedly under the direct supervision of the production control section rather than under the finance officer, although the latter should exercise staff supervision through audits. Still another possibility is to combine the timekeeping function with the function of the payroll department proper. In any event timekeeping includes accounting for attendance as well as the assigning of time spent on individual tasks.

The time accounted for by the timekeeping department is eventually passed on to the payroll department, which translates time into dollar amounts by the insertion of rates and the calculation of total and net pay after taking care of the many additions and deductions required under modern pay-

roll accounting. The flow of data through the various departments is shown in Figure 1.

The disbursing of the payroll is handled by the paymaster and his staff. After the payroll has been checked, the paymaster takes over the task of signing checks or stuffing envelopes and distributing them to the employees. The entire process is then summarized and passed on to the accounting department for recording in the books of account.

As was mentioned before, it is impossible to standardize the functions of a payroll department since these are certain to vary, depending upon local conditions. In some plants the payroll department is a special division of the cost accounting department; in others it is an adjunct to the factory office. The following is a list of duties performed by most payroll departments, but it is only suggestive of the more specific functions performed by such departments:

1. Determine regular and overtime hours.
2. Check and enter all wage rates.
3. Compute regular and overtime pay.
4. Compute additions to base pay.
5. Calculate and post bonuses and make out, if necessary, bonus tickets. These calculations may be required daily, weekly, monthly or at other intervals.
6. Prepare and compute the requisite payroll deductions.
7. Calculate and enter net pay.
8. Prepare all necessary documents in connection with the payroll.
9. Handle and prepare other records not part of the double-entry system but which are made necessary by law or other requirement; this includes reports and returns required by government agencies.
10. Prove all subsidiary records against control totals and check and balance out each original record, both as to dollar amounts and hours and sometimes quantities of production.

11. Deliver payroll checks to the proper persons for distribution to the workers on pay day. Where payment is made in cash, the audited payrolls are turned over to the paymaster for final processing.
12. Transfer necessary records and data to the controller, the general accounting department, the paymaster and to the cost department.<sup>1</sup>

These duties will each be discussed in detail in later chapters.

The logic of organization along the above lines is obvious. The payroll department prepares the payrolls within limits set by the personnel and timekeeping departments. The paymaster controls the cash but disburses it only on the authority of the other departments. A multiple check is thus obtained for every dollar spent for payroll, and the possibilities of manipulation through collusion are reduced to a minimum. Brink brings out several points that merit special recognition in the case of internal check of payrolls.

The hiring of employees should be centralized in the hands of a personnel department, and this department should keep independent records covering all persons employed by the company. Care should be exercised that the initial record covering the labor service is prepared accurately and independently checked. The underlying payroll data should be systematically controlled and linked to the maximum extent with production records. The major parts of the payroll procedures--creation of the data, preparing the payroll, approval of the payroll, disbursement of the funds, and cost analysis--should be in independent hands. Payroll disbursements should be by check if possible. Disbursements should be made directly to the employee by the disbursing officer in the presence of witnesses, and a receipt obtained. Special attention should be given to rate changes, employee deductions, and unclaimed wages.<sup>2</sup>

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<sup>1</sup>Theodore Lang, Cost Accountants' Handbook, p. 798.

<sup>2</sup>Victor Z. Brink, Internal Auditing, p. 268.



# PROCEDURE IN ACCOUNTING FOR THE PREPARATION OF THE FACTORY PAYROLL

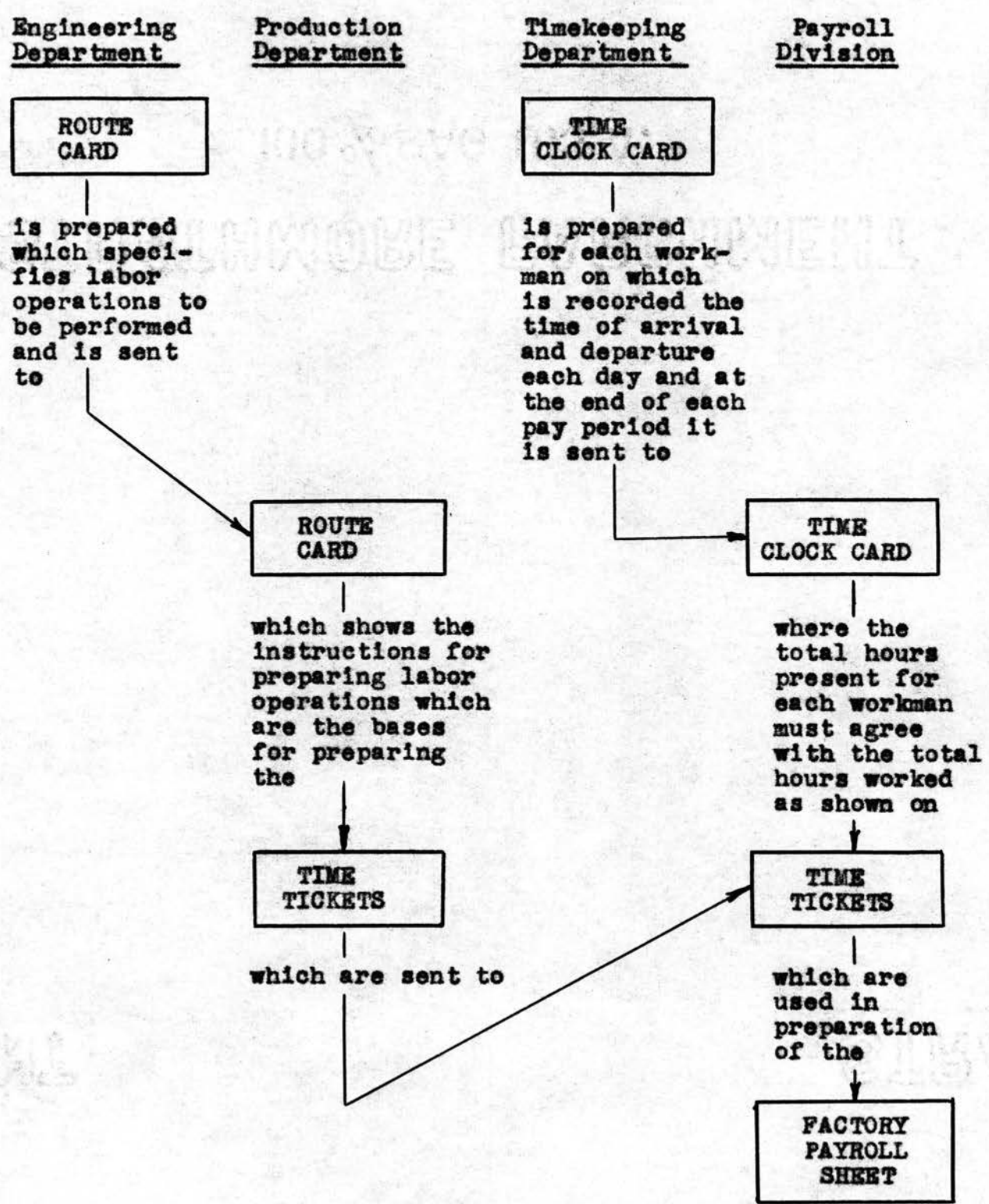


Fig. 1

As many of these ideas as are applicable to a particular firm should be incorporated into its payroll procedures.

At the outset, it should be emphasized that accuracy in the payroll is essential to favorable conditions in the plant. The payroll represents the most tangible point of contact with the employees. Hence its accuracy is all important; it is less difficult to recover from an error of judgement in personal approach to an employee than from an error committed in payment of his wages. Since errors are almost sure to occur from time to time, the human element should be removed as far as possible by the use of automatic and mechanical equipment. In case such equipment is not feasible, control devices must be set up so that, even if the system is manually operated, errors are eliminated or kept at a minimum. Use of automatic or mechanical equipment makes it practicable to furnish employees with a statement of certain details as to the make-up of the net pay. This has become more important in recent years, because of the tendency to increase the number of pay deductions for taxes, thrift, insurance, and various other purposes.

CHAPTER III

BASIC RECORDS OF THE PAYROLL DEPARTMENT

It is obvious, from the preceding chapters, that employers must keep available certain records of employees together with information about the wages earned and the hours worked. On the other hand many employers, in order to furnish this information, keep detailed records that are not needed and that are expensive to maintain. It is not possible to say that a certain type of record is satisfactory for every organization or even for each organization in a certain kind of business. Each business organization has its own problems and peculiarities that will affect the type of records needed. Obviously, a small retail business needs fewer records than a large industry with many plants, many departments, and a detailed payroll and personnel system. The records required by law should certainly be kept by every business. A business affected by a number of state unemployment compensation laws may need more detailed payroll records than a business having employees in only one state.

Personnel Information

During the past decade there has been an increasing desire on the part of employers to keep more detailed personnel records. It is possible to combine a personnel record with a record showing the earnings of each employee. Whether this can be done depends on the extent of the personnel records

and whether the one record is sufficient for all purposes. In some businesses it might be advisable to have a brief summary of personnel information for the reference of those in the payroll department and a more complete personnel record in the office of the personnel manager. Many businesses, especially those in which there is a high turnover of employees, keep a detailed record and report of all the work done by each employee.

The prospective employee's first contact with a concern is through the personnel department. This department continues, throughout the employee's tenure, to exercise a general supervisory function over the employee in all matters pertaining to personnel relations, and in such relations payroll matters occupy a prominent position.

#### Payroll Change Recommendation

The basis for the payroll is the payroll change recommendation or the individual employment report. This presents an orderly method for recording and obtaining approvals for the employment of new employees, the separation of old ones, and for all other changes in their payroll status during their periods of service. These forms and others related to them should be treated as confidential.

An individual payroll change recommendation is originated for each pay period by a supervisory employee authorized to hire, discharge, or to initiate transfers and salary adjustments. He lists all changes in payroll status among the

employees under his jurisdiction during the pay period, and he submits the form to the personnel department or to the official designated to approve payroll matters. The principles of good internal check require that the employee who originates the payroll change recommendation should not be under direct domination by the approving official; the greatest possible independence of action between them is desirable.

The following changes in payroll status are taken care of by payroll change recommendations:

1. Additions to or removals from force.
2. Transfers from one payroll unit, office, or department to another.
3. Changes in rate of pay.
4. Leaves of absence granted.
5. Changes in title or occupational code.
6. Changes in classification; e.g., from "temporary" to "regular", or from "part time" to "full time".
7. Changes in name; e.g., due to marriage, or changes in spelling of name.
8. Delayed assignment of social security account numbers.<sup>1</sup>

For convenience in routing, payroll change recommendations are often prepared in two parts using separate pages, one part for miscellaneous changes not affecting rates of pay and the other part for changes in rates of pay or changes in personnel which affect the payroll totals. The latter normally require higher ranking approvals than the former.

The form used for the payroll change recommendations should be so designed that it will serve for all of the above situations. One large company includes the following information on its payroll change form:

1. Location of plant and date of payroll period.

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<sup>1</sup>Theodore Lang, Cost Accountants' Handbook, p. 769.

2. Name of employee. The spelling must agree with the name shown on the employee's social security card or stub. Where a change of name is reported (e.g., due to marriage), both old and new names are shown.
3. Social security number. This is based upon the social security card or stub actually presented by each new employee. If the card is lost, the employee is required to obtain a duplicate from the local social security office.
4. Occupational title. This is shown either spelled out or in code.
5. Basic rate of pay. Where a change of rate is recommended, both old and new rates are shown.
6. Date. The day that the change is to be effective, which may or may not necessarily be the beginning or end of the payroll period.
7. Net amount of change. The amount of change per pay period is entered to facilitate executive scrutiny and to aid in balancing the control totals.
8. Explanation. Each item is clearly explained by notations, such as "Engaged", "Increase in Rate," "Transferred to...", etc. The term "Engaged" is supplemented by the explanation "Reinstatement" or "New Employee", if known. Particular care must be taken to explain accurately the reasons for separations from the payroll, because state unemployment insurance benefits are dependent upon this information. Such reasons as "Discharged for Cause" or "Voluntary Resignation" may result in an extended waiting period or other penalty before benefits can be obtained, whereas "Laid Off, No Work" usually entitles the employee to preferred status with respect to unemployment benefits.
9. Signatures of recommending and approving officials. If there are several pages, each page is separately signed and approved to lessen the chance of subsequent substitution or alteration of the sheets.<sup>2</sup>

In the same company all changes in payroll status are listed on one form which, therefore, serves as a summary of payroll changes in each department. Where individual forms are used, they must be summarized on a separate form. A by-product of this summary is the ability to obtain payroll control totals. These are obtained from the previous period's control total after tracing the effects of the changes taking

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<sup>2</sup> Ibid., p. 771.

place in each period. The amount of change is obtained by multiplying for each employee the normal hours by the hourly rates. The net change is added to or subtracted from the previous control total of the payroll to establish the control figure for the current roll.

In the event of a general uniform change in wage scale a single blanket entry may be made showing the number of employees, the rate of change, and the total amounts involved. This can be supported by the detailed addressing machine proof sheets, showing old and new rates for each employee, thereby saving much detail work.

Payroll change recommendations should be compiled, approved, and forwarded to reach the payroll department in time for use in preparing the current payroll. Where more prompt reporting of additions and separations is required than is provided by a periodical payroll change recommendation report, an individual employment report, or "hire slip," for each employee is found more satisfactory. The internal check provided by the progressive payroll control totals on the periodical report is absent on the individual employment report. A measure of control over the latter may be established by using prenumbered forms. The paymaster or auditor can then check the continuity of serial numbers and prepare a reconciliation of payroll totals or summary of payroll changes each pay period.

#### Name Stencils

From the payroll change recommendation or the individual

employment reports the payroll department prepares addressing machine stencils and badges or identification cards, and heads up time clock cards and individual earnings records. The stencils are kept confidential, to prevent unauthorized persons from preparing clock cards or other payroll documents which might be misused.

If there is a separate timekeeping department, not a part of the payroll department, a copy of the payroll change recommendation is sent to the timekeeper to serve as the basis for establishing time records pending receipt of routine time cards from the addressing machine section.

#### Employee's Service Record

In 1938, the Fair Labor Standards Act, commonly known as The Wage and Hour Law, went into effect. This law is different from any other state or federal law affecting payroll accounting in one respect: there are no periodic reports required. It is this aspect of the Wage and Hour Law which makes it extremely difficult to know the extent to which an employer is complying with its provisions. If reports were required, an employer would know at the end of each quarter whether he was complying. But there have been cases where an employer, fully confident of his compliance, found after inspection that he had been in violation for several years and was required to pay penalties in the form of fines and double back-pay wages for the entire term of non-compliance. In many cases, wage and hour inspectors have not been able to



inspect a concern's records for three or four years. The employer, confident in the assurance that his records were complete and adequate, was embarrassed to learn that he had not been paying employees properly, resulting in the payment of thousands of dollars of back pay. So, a knowledge of what is required may save employers thousands of dollars and considerable embarrassment and adverse publicity.<sup>3</sup>

This act limits the hours of work of employees at regular pay and requires overtime pay for any work over a specified number of hours. The Wage and Hour Law requires employers to keep and preserve records of employees showing the wages paid to each employee, the hours worked, and the conditions and practices of employment maintained by the employer. The records must be preserved for certain periods of time set up by the Act and must be available to the administrator of the Fair Labor Standards Act. There are certain exceptions to the law, such as executive and administrative employees who are paid at least \$30 a week, actually direct the work of other employees, and have authority to hire, fire, and promote those whom they direct.

Many firms keep an employee's service record on which they record much of the information required by the Wage and Hour Law as well as a permanent record of the service history of each employee. The employee's service record should be a very well kept record giving complete information concerning

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<sup>3</sup>Walter C. Lee. "Modern Payroll Accounting is a 'Must'," N.A.C.A. Bulletin, Vol. 26, No. 19, Sec. 1, Pp. 807-902.

the employee, both at the start of employment and throughout his association with the concern.

The following information required under the Fair Labor Standards Act of 1938 can conveniently be recorded on the employee's service record: name in full and any clock number or other code or abbreviation used to identify the employee, home address, date of birth, occupation, and basis on which wages are paid, e.g., "50¢ per hr.," "\$3.00 a day," "piece rates," etc. If all employees do not have the same work week, the time of day and the name of the day on which each employee's work week begins can best be recorded on his service record. Other required information may be shown on attendance time record, payroll or individual earning record, etc. Home addresses should be checked and corrected with reasonable frequency to meet Fair Labor Standards Act requirements. If the employee's age is under 19, it is necessary:

1. To consult the law and make notations on the employee's service record showing why it is believed that the child-labor provisions are not violated.
2. To attach a certificate of age issued in accordance with regulations of the Children's Bureau showing that the child is above legal age for employment in the occupation in which he is engaged.<sup>4</sup>

A record of the type of occupation on the employee's service record is important wherever it may form the basis on which a partial or complete exemption is claimed from limitations provided in the Fair Labor Standards Act.

The form may also include any agreement with the company

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<sup>4</sup>Fair Labor Standards Act of 1938.

after the initial rate is inserted, it is signed by the employee. New employees should be carefully advised as to when they will receive their first pay, where to get it, and what formalities or identification are necessary. They should also be told about any payroll deduction plans in effect, and they should have an opportunity at once to sign any deduction authorizations which may be in order for new employees; these are attached to the new employee's service record form. The form is attached to the related payroll change recommendation or employment report and sent to the payroll department, where the two together are used as the basis for setting up addressing machine stencils, tabulating master cards, or other means of inserting the names on the payroll.

Subsequent entries in the lower portion of the form, and continuing to similar columns on the reverse side, are posted by the payroll department from subsequent payroll change recommendations or employment reports. Current record forms are kept in a suitably arranged file in the payroll department. Record forms of ex-employees are held in a transfer file permanently or until the employee is reengaged and his record returned to the active file.

In certain industries particular care must be exercised in selecting and identifying employees. In such special cases a fingerprint is appropriate and may be included in the employee's service record.

## CHAPTER IV

### BASE PAY AND ADDITIONS TO BASE PAY

#### Computing Base Pay

The physical preparation of the payroll involves a consideration of many problems. The procedure, in general, is dependent on whether the payroll is prepared mechanically or manually.

When the payroll is prepared mechanically and a flat rate per payroll period is in force, such as a rate per week, the computation of the base pay offers no serious problem. Where the organization is large enough to warrant the use of addressing or tabulating equipment to prepare skeleton payrolls, the plates, stencils, or cards which are used to imprint the employees' names customarily show also the basic rate of pay for each individual. Corrections and changes in the rates recorded on the plates, stencils, or cards are made upon receipt of properly approved payroll change recommendation or employment reports. After each skeleton payroll is run off, the mechanically printed basic pay column is added and balanced with the progressive control total established as described in connection with the payroll change recommendation. This internal control minimizes the possibility of placing unauthorized names on the roll or tampering with the basic rates. The name plates, stencils, or cards are used to head up time clock cards and other employee records.

Where mechanical devices are not used, basic rates

must be entered on skeleton payrolls and on time clock cards or periodical time and earnings records by hand or typewriter. The source of these entries is a record maintained especially for the purpose, or the rates may be transcribed from the payroll for the preceding period with allowance for any payroll changes approved in the interim. Where the entries are thus transcribed by hand or typewriter, it is doubly important to draw off a total of the entries and balance with the control total developed from the payroll change recommendation so as to detect accidental error as well as to guard against deliberate manipulation.

Computation of the wages due each worker is the most voluminous and burdensome part of the entire payroll operation. Where the basis of remuneration is a monthly rate, a minimum of detail is required; more detail is necessary if the basis is weekly; still more is necessary on a daily basis; and it approaches a maximum where the basis is an hourly rate. Where payments are made at piece rates or under a group bonus system or other incentive plan, a maximum of detail is required, and the problem of maintaining internal check against a control total becomes most difficult.

Piecework rates are permitted under the Fair Labor Standards Act, but in that case the rates, the weekly earnings, and the number of hours worked during the week must all be recorded so as to prove that maximum hours and minimum earnings are within legal limits.

Computation of actual pay from basic rates should be

made on the time clock card or time and earnings record in accordance with the time reported. Where flat rates of pay are used, this merely involves transcribing the rate to the Regular Pay column wherever full attendance is reported. If it is the practice to make deductions for absence or tardiness, the calculation can best be made from prepared tables. Likewise, where hourly or piecework rates are in effect, the use of tables is recommended.

Although various mechanical devices are used for computing regular and overtime pay, the use of prepared tables has been found to be quicker and more accurate. Tables can be purchased or constructed to cover not only straight salary rates but also bonus, differential, or piece work rates to suit the need of a particular business. Another scheme is to superimpose a time card upon a matching payroll table. This method is particularly well adapted to the evaluation of elapsed time on job records, and is described in detail later.

#### Additions to Base Pay

The computation of earnings at this point is preparatory to making the actual cash payment. It should cover every item to be included in the pay envelope or on the pay check. Typical items are regular and overtime pay, additional allowances, commissions, regular periodical bonuses, or bonuses based on production accomplishments.

Bonuses are usually figured weekly, though many plants compute them daily. They are intended generally as an incentive to greater production, but their value for this

purpose is lost unless each working man is shown clearly the relation between his production and his bonus. It is good practice to insert a bonus slip in the pay envelope to show how the bonus was computed. However, many plants prepare and distribute bonus tickets to the workers every day. This is done on the principle enunciated by F. W. Taylor that best results of an incentive scheme are obtained when rewards are immediate. A daily reminder is a stimulant to the worker to continue good work or to improve a subnormal performance. Another advantage of daily bonus tickets lies in the fact that if errors occur they can be corrected before pay day. Corrections are easier, because the facts are fresh in everyone's mind.

Items such as carfare allowances or per diem allowances on occasional trips away from home which are in the nature of reimbursement for expenditures made on behalf of the company are not earnings even though, as a matter of convenience in paying, they may be included in the pay check. These amounts should be excluded from taxable totals and from calculations of earnings to determine compliance with the Fair Labor Standards Act. All of the foregoing additions to pay are recorded on the individual's time and earnings record. This form may be varied in endless ways to meet local payment practices, provided it shows clearly a summary of the hours worked each week and the cash compensation therefor.

## CHAPTER V

### DEDUCTIONS FROM BASE PAY

Deductions fall into two general groups: those which are constant period after period and those which are variable. Constant deductions are usually the result of a voluntary authorization made by the employee in accordance with the terms of a plan formally announced by the company. The announcement of a plan should describe clearly the purpose of the deductions, the method by which the employee authorizes deductions, disposition of the funds by the company, and the method by which the employee may withdraw from the arrangement. Variable deductions are usually the result of federal or state legislation.

#### Constant Deductions From Pay

Deductions other than those required by law must be authorized by the employee. An interesting form of authorization capable of dealing with the constantly lengthening list of payroll deductions is the use of a strip waiver consisting of one lengthy, perforated form which is prepared at the time the applicant is filling out his personal information card. For convenience a summary of deductions is prepared from these authorizations; it should be made out for each individual involved and used as the basis for recording deductions on the employee's earnings record and check stub. These forms should be maintained in the same order in which



the earnings records are filed.

Constant deductions do not vary in amount although they may not occur every week. Some are made only monthly, and the weekly deductions may or may not be made when a fifth pay day occurs in a month. A schedule of such deductions is maintained and observed spreading the deductions as evenly as possible. This schedule may be incorporated as part of the employee earning record.

The instructions contained in the announcements of the various plans should clearly indicate which deductions are to be given priority in the event the pay is not sufficient to warrant making all deductions.

### Security Purchases

A sound plan for handling deductions for security purchases is outlined by Bruce. Although the plan is designed for the purchase of Savings Bonds, it may be applied with modifications to the purchase of any securities. Each plan for a constant voluntary deduction from pay should provide four fundamental features in addition to the initial announcement of the plan:

1. Authorization--provision of a form on which each employee can voluntarily state his wishes and authorize deductions.
2. Deduction--establishment of some mechanism to insure regular and accurate deduction from pay.
3. Records of amount accumulated, and amounts applied to the purpose of the plan.
4. Disposition of funds--a method of applying the accumulation of deductions to the purposes of the plan.<sup>1</sup>

Authorization cards, whether privately prepared or, in the case of government bonds, obtainable from the Treasury

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<sup>1</sup>Robert Bruce, "Payroll Savings Plan for Purchase of Savings Bonds," N.A.C.A. Bulletin, Vol. 24, No. 4, Sec. 1, pp. 169-192.

Department, show the name of the employee and of the company concerned. Authorization cards also contain an authorization for the deduction of specified amounts, state when allotments begin, and state the denomination of bonds the employee desires to purchase. Provision is also made for showing the manner in which the employee wishes to have the bonds registered. The final paragraph of the text on the face of the card constitutes an acknowledgment of receipt of a copy of the printed plan which the employer has distributed. Verbal descriptions of plans are not desirable. Finally the necessary space is provided for the employee's signature.

Like other payroll procedures, mechanism for regular and accurate allotments of pay cannot be standardized. The form it takes depends upon the payroll procedure already used in each establishment. Some concerns prepare their payroll by means of tabulating machines, others use book-keeping and check-writing machines, and still others use strictly manual methods. However, there are certain requirements that must be met in every case:

1. There must be some way to notify the payroll clerk to make the deduction.
2. Some place must be provided on a suitable form on which the payroll clerk can compute and record the net amounts of pay due after the deductions are made.
3. Some means of control must be established to provide a total with which the calculating work may be balanced.
4. A means of safekeeping the funds withheld must be provided, which may involve bonding the employee who makes the deduction, and which should always assure the establishment of a separate trust fund bank account apart from the company's own corporate funds.

5. Provision must be made for preparing a list of the deductions made each pay period, which serves as a permanent journal record of the transactions and as a basis for the ledger postings.<sup>2</sup>

According to Bruce the best procedure in the case of savings bonds for recording the amounts accumulated and applied is to use a record printed on the reverse side of the authorization card. This is true whether a company is a very large one using a highly mechanized method of payroll preparation or whether it is a very small concern whose records are prepared entirely by hand. In this way the employees statement of his wishes and the records of their execution for a period of six years, are all placed on the same form. The record in card form gives the utmost in flexibility so that subscribers may be added or removed, and the authorizations may be changed without affecting the system.

The sequence of the cards in the file may be alphabetical or numerical or by department or any other way which keeps them in agreement with the sequence of the names appearing on the payroll clerk's deduction lists. There should be a card for every item on the deduction list and an item for every card, both arranged in the same sequence. Irregularities occur only when some change in authorization has not been properly put into effect.

At the top of each card, under the caption "Deduction," the amount of the payroll deduction is shown. This should agree with the amount shown on the payroll clerk's deduction

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<sup>2</sup>Theodore Lang, Cost Accountants' Handbook, p. 791.

list. Since everything is in agreement, the only posting necessary is to put a check mark in the proper space under the caption "Payroll Period." If desired, the actual amount of the deduction may be entered in the column provided under "Payroll Periods", although it has been found that a simple check mark is entirely adequate so long as the amount of the deduction is shown at the top of the card. If the amount of the deduction is changed, the new amount is posted only the first time to mark the point of change. Provision is made on the form for five weekly payroll periods in a month. If payments are made weekly, some months have four and some have five deductions. If payrolls are prepared semi-monthly, only the first and second spaces are used each month.

It is desirable to balance the file once each month. This is done by computing and entering "Net Credit End of Month" on each card. For example, in a month with four payroll periods, where the weekly deduction is 75 cents, four check marks mean that \$3.00 has been accumulated during the current month, and this added to the net credit at the end of the preceding month gives the net credit at the end of the current month. An adding machine total of the last "Net Credit End of Month" on all cards in the file must equal the balance in the special bank account at the close of the month. A further reconciliation can be made in accordance with the following formula: Total credit in bank end of previous month, plus total deductions per the month's payroll, less the month's remittances for purchases of bonds, equal the net

credit at the end of the month. Note that in the foregoing reconciliation it was necessary to take into account the remittance for bond purchases during the month. A column captioned "Applied to Purchase of Bonds" is provided on the card record for recording the details of such purchases. The entries in this column are posted from a bond purchase list.

The most commonly used method in connection with payroll savings plans is to order the bonds directly from the local Federal Reserve Bank. Bonds purchased in this way are delivered directly to the employees by registered mail. It is also possible to order bonds through the local post office, in which case delivery may be obtained either across the counter or directly to the employee by registered mail. This is the method used by many smaller concerns, particularly outside the larger metropolitan areas. The third method is to purchase bonds through any other authorized issuing agent. Where issuing agents other than Federal Reserve Banks or local post office are utilized, delivery of the bond is usually made by hand, and some form of acknowledgment of receipt by the employee must be provided.

When deductions begin, the bookkeeper computes the month in which the purchase of the bond should normally be made, and this is marked on the card by inserting a dollar sign opposite that month in the column headed "Applied to Purchase of Bond". This serves as an effective reminder to warn the bookkeeper when the purchase date arrives.

The order form is ordinarily prepared by the employer in triplicate. The original order goes to the issuing agent, the duplicate is for the employer's own records. The triplicate copy can be detached and inserted in the employee's pay envelope as a notification that the bond has been ordered. A single check to the order of the Treasurer of the United States may be drawn for the total purchase value of all bonds ordered at one time.

#### Thrift Plan for Savings Bank Deposits

The method of accounting for thrift plans for savings bank deposits is much the same as for security purchases, except the record keeping and disposition of funds withheld are somewhat different.

Usually there is an arrangement with the bank whereby a list of participants, showing the amounts of their periodical deposits, is prepared each pay period and used as a blanket deposit slip. Where procedures are mechanized, this is done by an addressing machine or by machine listing. A duplicate copy of this list comprises the company's records and no cumulative record is maintained. After the deposit is made each pay day, the employee has full control of the funds just as if he had personally made the deposit, and the company's interest ends just as if the money had been paid to the employee in cash. The bank usually sends the employee a statement of account at stated intervals.

### Insurance Premiums

Usually there is an arrangement with an insurance company whereby a list of participants and the periodical premium is prepared at intervals to accompany a check for the premium payments, in case such premiums are to be withheld from the employee's wages. There is the difficulty, however, that payrolls may be paid weekly and insurance premiums are due monthly. This condition is usually met by arranging for deduction of insurance premiums only on a certain single pay day each month. Where it is necessary to make a small deduction every week, several problems arise. The employer acts as custodian of the funds in the interval between the weekly pay day and the date of the premium remittance to the insurance company, and it is difficult to make the weekly installments equal the monthly premium. However, in the event that this system is used, arrangements should be made to meet these problems. A separate bank account must be established for this purpose as a trust fund, so that accumulations for payment of insurance premiums are not intermingled with company funds. If the amounts involved are too small to justify a separate bank account, at least a separate account in the general ledger should be provided, clearly indicating that the funds are held in trust for employees. Normally, a subsidiary ledger is needed. The four weekly deduction lists and the one monthly remittance list, stapled together and filed, constitute an adequate record of the transactions.

About one month in each quarter contains five pay days, whereas four installments suffice to pay the premium. This condition is met simply by omitting deductions on the fifth pay day of a month. Differences due to adding or removing employees during the month are avoided by providing in the plan that all deductions shall begin on the first pay day of the month following the date the employee signs the authorization and that when the arrangement is terminated in the middle of a month, all deductions made since the close of the preceding month are paid to the employee in cash.

An occasion may arise where there has been failure to deduct enough to cover the premium. Such a case would be in the event the employee is absent for a week without pay, or some similar circumstance. To prevent lapse of insurance coverage, every such case should be watched carefully. The plan may provide for payment of the missing amount by the employee to the employer in cash, or in distress cases the employer may arrange to advance the amount and collect from the employee at some future date. Such advances are charged to Accounts Receivable or Notes Receivable, as appropriate, with suitable supporting documents, and not left to appear as a debit in the Employee's Insurance Premiums Payable Account.

#### Association Dues

Association dues or check-off union dues are handled much the same as insurance premiums. Instead of the arrangement being entirely voluntary and evidenced by an authorization signed by the individual employee, there may exist a blanket



closed shop agreement which makes the deduction obligatory for all employees. However, at the present time, this is not legal under the Taft-Hartley Act. There is also the custodianship features, as described in connection with insurance premiums deductions, if deductions are made weekly and remittances to the association or union made monthly. This should be avoided wherever possible either by remitting weekly or by withholding only on one pay day of every month.

### Variable Deductions

The second main category of payroll deductions mentioned before was variable deductions. They may vary in several ways. There may be no relation between the deduction and the total pay, as in the case of absence or tardiness, penalties for spoilage, etc.; they may vary from one pay period to the next, when they are calculated as a percentage of variable earnings, or they may vary from one season of the year to another, when they involve either initial exemptions and later surtaxes as in the case of personal income taxes, or when they involve ultimate ceilings as in the case of old age benefit taxes.

Deductions from pay because of absence or tardiness should be taken into account when base pay is computed, and they should be incorporated in the time and earnings record previously described.

The other variable deductions are usually a result of legislation affecting the payroll, such as the Federal Social Security Act and the various state laws concerning workmen's

compensation, etc. It will not be attempted in this thesis to go into the details of this legislation--for obvious reasons. Every employer must consult the law himself, both federal laws and the laws of the state in which he is doing business in order to be certain of compliance; as heretofore stated, noncompliance can be a very serious matter, involving not only money but unfavorable publicity as well. Only the outstanding provisions of the laws will be touched upon here, in order to show how the accounting principles can be applied to these laws.

#### Federal Old Age and Survivor's Insurance Tax

The federal social security program has two principal phases; it involves an old age and survivor's insurance program financed solely by the federal government, plus an unemployment insurance program financed jointly by the federal government and the various states.

The old-age and survivor's insurance program will be discussed first. For the support of the benefits provided for under this program, there is imposed a federal tax on both employers and employees.

Every employer must pay an excise tax on wages paid to each employee up to \$3,000, while the employee pays a similar "income" tax on the first \$3,000 of remuneration received. This latter tax must be deducted by the employer and is payable, together with the employer's share, to the Internal Revenue Department. These taxes are payable quarterly when the

Treasury Department, Internal Revenue service form SS-1a must be filed.

The rate of tax is identical for both employers and employees increasing from one to three percent, reaching the three percent mark in 1949, and remaining at three percent thereafter. However, it has been frozen at one percent since passage of the act.

Thus the first \$3,000 of the wages paid to an employee is taxable both to the employee and his employer, and the employer must make proper deductions from payrolls and file the Treasury Department form with the local Collector of Internal Revenue.

The old age insurance tax paid by the employer is considered as a legitimate operating expense, and as such it is deductible on the regular federal income tax return and on state income tax returns.

The rate applied is a constant, with no surtaxes, and the only factor to watch is the ceiling limit of \$3,000. After the year's earnings have reached this point, no further deductions are made. There are two common methods of watching for this ceiling. In some payroll machine applications, a reducing balance is used on the individual earnings record. A column headed "Balance Subject to Old Age Benefit Tax" is provided, and the initial amount set up on January 1 is \$3,000. As the earnings for each pay period are posted, they are subtracted from this column. The tax for the next pay period is computed on either the pay for the period or the previous balance,

whichever is lower. When the balance is reduced to zero, deductions cease.

The other method is to record cumulative earning on the individual earning record and to watch these each pay period when the \$3,000 maximum is approached. In the pay period in which \$3,000 is about to be passed, a special calculation of the final tax deduction must be made. Larsen tells of one company that used a little red sticker pasted on top of the earnings record to denote that the \$3,000 limit had been reached.<sup>3</sup> With earnings cards flagged in this manner, payroll clerks are on the lookout to make certain that no social security deductions are made on cards so distinguished.

A column should be provided in the earnings record for this deduction as well as on the time clock card. The tax figure is then readily available for use in processing the payroll itself.

Under the amendments of 1939 the employer must furnish to each employee a statement covering one, two, three, or four calendar quarters, showing the name of the employer, the name of the employee, the period covered by the statement, the total amount of wages paid during the period, and the amount of the tax imposed. However, the employer may, if he prefers, furnish such a statement to employees at the time of each payment of wages instead of quarterly or yearly. When a statement is furnished with each payment of wages, the state-

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<sup>3</sup>L. M. Larsen, "Speed Plus Control on Payroll Work," American Business, Vol. 17, Jan. '47, pp. 16-17.

ment may show the date of payment instead of the period covered by the statement. If the quarterly or yearly statements are furnished by the employer, they must be placed in the hands of the employee no later than the last day of the second calendar month following the period covered by the statement. If an employee leaves the employment of the employer, the statement must be furnished on the day on which the final payment is made.

#### Federal Unemployment Benefit Tax

Employers of eight or more individuals, in addition to being subject to the taxes for old-age insurance purposes and to certain state contributions, are also required to pay the excise tax to the federal government for unemployment purposes. The additional taxes make it necessary for the employer to keep accounts that are slightly different from those of the employer who is not subject to the federal unemployment tax. The federal unemployment tax is not an excise tax, so there is no reason why the expense cannot be charged to the same account as the old age insurance taxes. Since the old age insurance taxes are paid quarterly and the federal unemployment tax is paid only annually, it is advisable to keep separate accounts for recording the liability of the employer. It is suggested that the following accounts be kept by an employer who is subject to the old age insurance taxes, state contributions, and the federal unemployment tax:

1. Social Security Taxes--an expense account in which are recorded the excise tax on employers for old-age insurance purposes and the excise tax on employers for federal unemployment purposes.
2. State Unemployment Contributions--an expense account in which are recorded the contributions to state unemployment contributions funds.
3. Federal Old Age Insurance Taxes Payable--a liability account in which is recorded the liability of the employer for the excise tax on the employer as well as for the income tax on the employees.
4. Federal Unemployment Taxes Payable--a liability account showing accumulation of Federal unemployment taxes payable to the Federal Government.
5. State Unemployment Contributions Payable--a liability account showing the amount payable to the state unemployment compensation funds.<sup>4</sup>

An employer subject to the Federal unemployment tax of 3 percent may be able to claim credit up to 90 percent in paying the federal tax because of contributions made to state unemployment compensation funds. Since the rate of tax under most unemployment compensation laws is 2.7 percent and since the employer may be able to claim as much as 90 percent of the federal tax in paying the federal tax, the net amount of the federal tax for unemployment purposes is usually .3 percent, making a total of 3 percent in federal and state taxes all together.

For example, employees of a business earn wages during a certain year amounting to a total of \$17,500, all of which is subject to the Federal Excise Tax imposed on employers by the Federal Social Security Act for unemployment purposes. The

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<sup>4</sup>J. F. Sherwood, and John A. Penderry, Social Security and Payroll Accounting, p. 100.

employer is also required to make contributions to the unemployment compensation fund of the state in which his business is located, at the rate of 2.7 percent of the first \$3,000 in wages paid to each employee. Following is a computation of the federal and state unemployment taxes:

State Unemp. Contributions 2.7% of \$17,500		472.50
Federal Excise Taxes, 3% of \$17,500	525.00	
Less Credit of 90% for State Contr.	<u>472.50</u>	<u>52.50</u>
		<u>525.00</u>

The maximum amount of credit which may be claimed in this case is 90 percent of \$525.00 or \$472.50. In no case may the credit for state contributions exceed 90 percent of the federal tax imposed for unemployment purposes.

If the federal unemployment taxes are recorded each pay day as 3 percent without taking the 90 percent credit immediately, it means that if the statements are prepared monthly or at the end of December, the amount of federal unemployment taxes is overstated. It is considered good practice, therefore, to take the 90 percent credit into consideration at the time the entry is made to record wages and taxes each pay day.

If an employer is required to make contributions to several state unemployment funds, it might be desirable to keep an expense account in the general ledger with the title "State Unemployment Contributions" and a subsidiary ledger using a separate sheet for each state to which unemployment contributions are made. Many businesses making contributions to

more than one state unemployment fund record all of the contributions in one expense account and keep a separate file or folder for information pertaining to each state.

One of the major purposes of these state laws is to stabilize employment, and in support of this purpose most states have set up certain merit ratings to employers who meet their standards. These standards are set forth in the Federal Unemployment Tax Act. Good management would also favor a low labor turnover; it will be to the interest of the management therefore to study carefully the laws of the state or states involved relative to the merit ratings.

Under the merit ratings now in use in most states, there is maintained for each employer a separate account to show as credits all the payments made by the employer and all the debits for benefits paid to his employees. Employers with a favorable record are taxed at a lower rate. In most states, when the balance in an employers account reaches 7 percent, the tax is reduced; the reductions become greater as the balances become larger. These lower rates would result in no advantage to employers if only actual payments to state funds were allowed as credits against the federal tax, for a lower state tax would mean only a higher federal tax. To avoid this result, an additional credit is allowed. The Social Security Act provides that, where such merit rating provisions are established, full recognition will be given such rates by means of additional credits. Briefly, if the normal state tax



rate is 2.7 percent and an employer is allowed a merit rating, and required to pay only 1.8 percent, he will be allowed a credit against the federal tax for the amounts actually paid the state at 1.8 percent, and in addition the .9 percent merit deduction. In effect, the employer will receive the full credit of 2.7 percent which is the maximum allowed, just as if he had paid the full state tax. The merit rating provisions of every state law now in effect comply with the federal requirements.<sup>5</sup>

There are several reports which must be made in connection with the Federal Social Security Act. Every employer who pays any old-age benefits under the Act is required to make a quarterly tax and information return for each calendar quarter beginning with the quarter ending March 31, 1938. The return must be filed on or before the last day of the month following the period for which it is made. Thus a return for the calendar quarter ending March 31 must be filed on or before April 30. The tax imposed on both employers and employees under the old age insurance provisions is due and payable at the time the return is filed. There is no provision in the law or regulation for any extension of time for filing the returns. The tax imposed should be withheld from the employees wages; but whether or not it is withheld, the employer is liable for the tax and must pay the tax imposed on the employees in addition to the tax imposed on himself.

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<sup>5</sup>Robert A. Lamberton, Fundamentals of Accounting, pp. 414-415.

### Federal Withholding Tax

All of the foregoing laws have one thing in common--they apply the same way to all covered employees. That is, Federal Old Age and Survivor's Insurance requires a similar deduction from all employees; unemployment insurance blankets the entire payroll; the Wage and Hour Law places a similar floor on the wages and a similar ceiling on the hours of all covered employees. The formula is always the same.

However, with the introduction of withholding tax, there is something new. This law required differentiation between employees and makes them individual entities in computing their earnings and deductions. Although no signed authorization is required of the employee to start deductions for personal income taxes, a signed statement of personal exemptions is usually necessary to determine the starting point of the tax deductions of each year. The amount of personal exemption claimed by the employee is posted to his earnings record.<sup>6</sup>

Every employer who pays wages to an employee must withhold from such wages paid, an amount computed in accordance with the formula or tables furnished by the Collector of Internal Revenue.

Employers required to withhold include not only individuals, partnerships, estates, trusts, and corporations, but also unincorporated organizations and groups. The number of employees and length of service is immaterial.

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<sup>6</sup>Walter C. Lee, "Modern Payroll Accounting is a 'Must'," N.A.C.A. Bulletin, Vol. 26, No. 19, Sec. 1, p. 892.

Wages subject to withholding include all the remuneration paid to an employee, whether paid in cash or in something other than cash, such as for example, stocks, bonds, or other forms of property. If wages are paid in an item other than cash, the fair market value of the item at the time of transfer is the amount considered as wages. The law should be consulted for the exact details.

On or before the last day of the month following the close of each calendar quarter (January 31, April 30, July 31, and October 31), each employer must file with his local Collector of Internal Revenue Form W-1 on which he reports the aggregate amount of the tax withheld from his employees during the preceding calendar quarter. Payment of the tax is then due. The law itself should be consulted for details.

#### Workmen's Compensation Insurance

Nearly all states require employers to provide insurance to indemnify employees and their families for losses due to injuries or death sustained in the course of employment. This form of insurance known as workmen's compensation insurance, was one of the first kinds of accident insurance to gain widespread favor. While employers are required to pay the premiums on this insurance, benefits are paid directly to the injured worker or to his survivors if he dies.

Many states offer the employer three optional methods of providing compensation insurance for his employees, namely:

In a State Compensation Insurance Fund. In this case the compensation insurance is provided by a department of the

state, administered by the state officers. Each company pays a fixed premium to the state; the state, in turn, pays all accident or death benefits.

In a Private Insurance Company. In this case, private insurance companies are authorized to write workmen's compensation insurance in the state.

As a Self-insurer. Under certain conditions, large well-established firms may carry their own workmen's compensation insurance. Self-insurers are usually required to maintain a substantial deposit of bonds or other securities with the state, or to be bonded by a bonding company, in order that payment of workmen's claims may be assured.<sup>7</sup>

The majority of concerns use one or other of the first two plans; only very large organizations ordinarily qualify as self-insurers.

Whether the insurance is carried with a state insurance fund or in a private company, the premiums on the policies are customarily computed on the basis of a firm's payroll. The rates used in determining the amount of the workmen's compensation insurance premiums which an employer must pay are usually based on each one hundred dollars of wages paid to employees. The rates for different classes of employment vary in accordance with the hazards involved in each type of work. For example, the rate for office workers is much less than that for employees in a factory where the chance for injury is greater.

As a result of this rate differentiation, it is necessary to make adequate provision on the pay roll for classifying employees for rating purposes. In the case of small firms

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<sup>7</sup>J. Hugh Jackson, Accounting Principles, p. 205.

the classification of each employee may be indicated after his name; in large concerns separate payroll records are often maintained for each classification. The total premium payment is computed by applying the proper rate to each classification on the pay roll and adding the resulting amounts.

Premium payments made by employers for workmen's compensation insurance are somewhat akin to tax payments, as the law requires that the insurance be carried. Nevertheless, such premium payments are charged to an insurance expense account, rather than to a tax expense account.

While the legal and social aspects of workmen's compensation insurance present many complexities, the accounting problems involved are quite simple.

Premiums on workmen's compensation insurance, however, because they are based upon the firm's payroll, cannot be determined accurately in advance. Consequently, a premium deposit is placed with the insurance company at the beginning of each annual period. The deposit is a debit to Prepaid Insurance and a credit to Cash. Then as the insurance becomes due, Insurance Expense is debited and Accounts Payable is credited. Then at the end of the year, the amount due is paid off, the deposit is adjusted if necessary, and the cycle begins all over again.

## CHAPTER VI

### PREPARATION OF THE PAYROLL

In connection with the preparation of the payroll itself two other documents are usually prepared simultaneously with it. This is true, in general, of mechanical bookkeeping installations and even of some manual systems. These are the pay check or the pay envelope, depending upon whether payments are made by check or in cash, including a statement of the earnings for the employees information and the individual annual earnings record.

#### Payroll

The payroll should provide detailed information about the payroll for each pay period. In addition to providing for recording the usual payroll information there should be space for recording in the payroll columns deductions made from employees' wages because of payroll taxes imposed under the federal and state laws. There should be space for other deductions, such as for group insurance. There should also be space for recording the net amount paid to each employee and the amount of the taxable earnings. In most businesses it will be advisable to include a special column to show the taxable wages under the state unemployment compensation laws. Although many businesses design their own payroll record to fit their particular needs, the majority of businesses can use satisfactorily the standard forms prepared by a number of

companies specializing in the manufacture of business forms. An example of such a form is seen in Fig. 2. The main purpose of the payroll record is to provide a summary of all payroll information for each period. This is the original payroll record from which information is transferred to the employee's earnings record. If a business has no need for payroll records by departments, the entire payroll can be grouped together. Many businesses, however, need departmental payroll figures in computing costs of operation for each department. If a business has no group insurance plan, it is not necessary to have a column for deductions for insurance premiums.

In addition to serving the above purposes the payroll can conveniently present the following information required by the Fair Labor Standards Act of 1938:

1. Name in full,
2. Occupation,
3. Hour and day on which work week begins,
4. Basis on which wages are paid,
5. Total straight time earnings,
6. Overtime compensation,
7. Other additions to or deductions from wages paid,
8. Total wages paid,
9. Date of payment, and
10. Period covered by payment.

Similar or supplemental required information shown on





employee's service record, time record, or individual annual earnings record must be in agreement. The payroll may also include other information according to the particular concern's requirements, such as clock number, check number if payment is made by check, factory or department location, etc. The payroll is usually in columnar form with a view towards using a summary of the column totals as support for the journal voucher showing charges to the control accounts in the general ledger. The size and form of this record vary with the size and the nature of the business, and with the kind of mechanical devices used in its preparation.

Checks are prepared on prenumbered stationery, for reasons to be explained later. The stationery stock is kept under lock and key in custody of a responsible official and is disbursed to the pay roll clerk only as required. Accountability for every check number must be established. Spoiled checks are returned to the custodian of the blank checks, who voids them and keeps them in numerical order subject to audit. They should not be destroyed prior to audit.

#### Pay Checks or Envelopes

Usually pay checks are provided with stubs, either at one end or along the top or bottom margin, on which the elements which make up the net pay are shown; e.g., base pay, overtime or bonus, and each of the deductions.

If pay envelopes are used rather than checks, the envelopes should be prepared by an addressing machine if a list of the

employees is so kept. Usually the face of the envelope provides space for showing the elements which made up the net pay, and frequently the envelope flap is designed to be detached and used as the employee's acknowledgment of receipt.

#### Employee's Earning Record

The individual annual earnings record (Fig. 3) is used both as a source medium for some postings and to receive a copy of other postings. The upper portion of the form is posted at the time the employee is hired. This posting comes from the payroll change recommendation or employment report supplemented by the accompanying service record. Subsequent changes are posted from approved pay roll change recommendations, deductions authorizations, etc.

The earning record serves, when each pay roll is prepared, as the source for such constant figures as basic wage rates and fixed deductions. The following information required under the Fair Labor Standards Act of 1938 can conveniently be recorded on the individual annual earnings record if so desired:

1. Name in full,
2. Occupation,
3. Basis on which wages are paid,
4. Additions to or deductions from wages paid,
5. Total wages paid each pay period,
6. Period covered by payment,
7. Total weekly straight time earnings, and
8. Total weekly overtime compensation.

EMPLOYEE'S EARNINGS RECORD

NAME										CLOCK NO.							
ADDRESS					PHONE					SOCIAL SECURITY NO.							
DATE			OCCUPATION	DEPARTMENT	WORK IS			FULL TIME HRS.	RATE	PER	EQUIV. ALENT RATE PER HR.	RATE OK'D BY	MEMO	SEPARATION			OR TO RE EMPLOY
MO	DAY	YR			STEADY	TEMP.	PART TIME							DATE	REASON	NO.	
TAX STATUS: EXEMPT (STATE U. I. <input type="checkbox"/> FROM FED U. I. <input type="checkbox"/> FED. O. A. <input type="checkbox"/> REASON <input type="checkbox"/> MALE <input type="checkbox"/> FEMALE <input type="checkbox"/> MARRIED <input type="checkbox"/> SINGLE <input type="checkbox"/> NO OF DEPENDENTS <input type="checkbox"/> RACE <input type="checkbox"/> U S CITIZEN <input type="checkbox"/> YES <input type="checkbox"/> NO <input type="checkbox"/>																	
Year and Quarter	WORKED			EARNINGS				DEDUCTIONS				TAXABLE EARNINGS REPORTED					
	WKS	DAYS	HOURS	REGULAR			TOTAL	OLD-AGE ANNTY				UNEMPLOY INSURANCE	OTHER	OLD-AGE ANNUITY			
19	(1)																
	(2)																
	(3)																
	(4)																
Totals																	
(4)																	
Totals												IN CASE OF ACCIDENT NOTIFY.					
DATE OF BIRTH												ADDRESS					
PLACE OF BIRTH												PHONE					
AGE AT TIME RECORD PREPARED												RELATIONSHIP					
DATE BECOMES 65																	

Fig. 3

Deductions must be itemized or supported by supplementary records which can readily be reconciled with the pay roll entry. Similar or supplemental required information shown on the employee's service record, attendance time record, or pay roll must be in agreement with the individual annual earnings record.

The lower portion of the earnings record shows cumulative total earnings for the quarter and the year. The form can be made to show the reducing balance subject to old age benefits tax where this method is in use. Under some machine accounting procedures this portion receives postings showing the complete make-up of each pay check or envelope.

In the pay period in which an employee's earnings become exempt from social security taxes because of the \$3,000 limit of taxable wages is reached, entries should show separate amounts for taxable wages up to the \$3,000 point and wages exempt because they exceed the \$3,000 limit.

A column should also be provided for special payments which are part of taxable income but are not included in the regular pay check, such as bonuses, prizes, etc., and payments made by means other than cash. This should include the reasonable cost (excluding profit to employer) of forms of compensation such as free lunches, free rent or heat, prizes in the form of merchandise, etc., which must be recorded for unemployment insurance, personal income tax, and withholding tax purposes, and perhaps for inclusion in any computations

to prove compliance with minimum earnings provisions of the Fair Labor Standards Act of 1938. It should also include vacation compensation adjustments and any other special payments on account of termination of employment. Appropriate explanation as to the nature and approval of any such forms of compensation should be shown as a footnote or entered on the reverse side of the form.

In order to assist in balancing the entries on the individual annual earnings record with taxable earnings totals as reported to government agencies, special attention must be paid to the filing of records. The original order of the forms is retained and no form is removed from its original location in the sequence established. Generally it is found advantageous to make up a new card when an employee is transferred from one state or pay roll unit to another. When an employee enters or leaves the service, or when his record is transferred to another card, a diagonal line is drawn from the first or last weekly space in which his pay was computed to the corner of the card, and appropriate cross-references to other cards are made. A notation is added showing sufficient explanation of the circumstances, e.g., "Resigned (date)", "Transferred to (Location or unit)", etc.

#### Other Records

In addition to the records required of the employer by federal law, he may be required to keep other records concerning the pay roll. The state or states in which an employer

is required to pay contributions will govern the necessity for keeping any other records of payroll information. For example, some states require detailed information in computing the full-time weekly wage. Similarly, if a state pays compensation for partial unemployment, the employer might be required to show the amount actually earned by the employee and the period covered.

Most state unemployment laws use the merit-rating system whereby an employer who stabilizes employment can earn a lower rate of contributions than those who have not stabilized employment. As explained earlier, a state with the merit rating plan sets up an account with each employer, crediting his account with the contributions paid and debiting his account with benefits paid to his employees who become unemployed. The ratio between the credit balance and the average annual payroll sets the contribution rate for the next year. Most states furnish the employer with a periodic statement of his account, showing the amounts charged against the account because of benefits being paid. Some states provide the names of those to whom benefits have been paid. There have been instances of mistakes where an employer's account has been charged with benefits that have been paid to someone who never worked for the employer. In some businesses, therefore, especially in large businesses and those where there are frequently unemployed workers, it might pay for the business to keep records so that it can check carefully on the statements received from the various states.

A mistake made by the state in charging benefits to the account of the wrong employer under the merit rating system might make the employer subject to a higher contribution rate the following year. A mistake of this kind might cost a large company a considerable sum if the company did not keep records to verify the reports of the states.

### Addressing Machines

Since many types of payroll equipment cannot be used for typing names on checks or payrolls, the names on the checks and entries in the "Name" column of the payroll must be entered in advance in longhand, by typewriter, addressing machine, or duplicator. Use of an addressing machine is strongly recommended wherever practicable as an adjunct to nonalphabetic payroll machines and in all manual installations. An example of the information contained on addressing machine plates or stencils would be payroll number, department or location, base rate of pay, authorized fixed deductions, social security number, clock number, occupational code, sex, date of birth, date of employment, or other personnel data useful in compiling various statistics, reports and records. Most addressing machines are equipped with devices which can be used to block out information not wanted on any document; thus the pay check or pay envelope may be printed from such a stencil to show only the name, while the payroll may include social security number, clock number and base pay; and the heading of the individual annual earnings record may show

a complete impression of the plate or stencil.

The use of Addressograph plates in the case of the River Rouge Plant of the Ford Motor Company is described by French:

Such equipment includes machines designed primarily for imprinting clock cards, pay envelopes, deduction receipts, etc.; for listing payroll sheets, heading up deduction records, earnings records, and similar forms; for proofing and miscellaneous auxiliary work, and for embossing payroll plates.

When a new employee is hired, an address plate is embossed with all the information available at the time. All personnel record forms are then imprinted with this plate, after which it is sent to the payroll department where it has a continuing use in the preparation of payroll records and forms as long as the employee remains with the company. As additional data becomes available, such as enrollment under insurance or hospitalization plans or subscription for bonds, the code is embossed on the plate in accordance therewith.

The information embossed on such a plate may include as many as ten or more items, such as: clock number and department code, name and social security number, address, seniority date, rate, union member, deduction in dollars for savings bonds, enrolled under group insurance plan, and enrolled under group hospitalization plan.<sup>1</sup>

Plates or stencils are originally prepared from the payroll change recommendation or employment report in combination with the accompanying service record. Subsequent changes in the stencils are made from approved payroll change recommendations. The best practice where pay rolls are large provides for a great deal of control over the addressing file. The stencils should be removed from the active file when they are listed on the payroll change recommendation and filed under the caption "Old". A listing of these stencils is made on a proof tape; the weekly rates are added and balanced with total of old rates on the summary list of payroll changes under the

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<sup>1</sup>R. G. French, "Ford Motor's Modernized Payroll Methods," American Business, Vol. 13, Pp. 18-21.



caption "Old". Changes are made in the active file when so directed by the payroll change recommendations. New stencils are filed in with the current file. After all the changes are completed, stencils for those engaged or transferred in and wage rate changes are listed on a proof tape. Weekly rates are added and balanced with the total of new rates on the summary list of pay roll changes. The pay roll for the next period is then addressed, weekly rates are added from the stencil impressions, and the total is balanced with the new control total at the bottom of the summary of the pay roll changes.

The pay roll stencils are useful in preparing a number of various documents used by the payroll department. These include:

1. Alphabetic (name) portion of pay check or pay envelope,
2. Listing of name, base rate of pay, etc., on payroll,
3. Heading of individual annual earnings record,
4. Heading of time clock cards,
5. Alphabetic (name) portion of pay receipts,
6. Detail of authorized salary deductions each pay period,
7. Deposit slips in connection with savings bank plans,
8. Premium lists in connection with individual insurance plans,
9. Name and social security account number on quarterly pay roll reports for old age benefits tax or state

unemployment insurance purposes,

10. Alphabetic portion of any withholding tax receipts.

In connection with the preparation of each class of documents mentioned above, control totals of the number of items and of the total amounts involved are maintained on special records. The control record is kept up to date by adding or subtracting the amounts of changes, entering the new amounts and dates effective in the next space on the card. Each set of impressions is counted and added, and balanced with these controls. Any longhand additions, deletions, or alterations in the lists released from the addressing department should be subjected to careful scrutiny in the course of any audit which may be made of the pay roll records to insure that the changes are properly authorized or otherwise in accordance with the facts. The value of addressing machines as a means of internal check on the preparation of payroll documents cannot be overemphasized.

Preparation of Records

Traditionally, where the earnings record, pay check, and payroll are prepared separately, the payroll is prepared first as the work sheet; this serves as the source medium for drawing off the figures required to complete the other documents. However, the individual annual earnings record now becomes the most important document, and the best thought now leans toward the preparation of this record first, as the work sheet, so that the original entries become the vital

record without the labor and hazard of error incident to transcribing a variety of figures from the payroll. Since the file of individual earnings records must be kept intact as support for various reports to government agencies, it becomes, in effect, a loose-leaf payroll with a separate page or record for each employee. The importance of the payroll diminishes as the importance of the individual earnings record increases. Now some companies have gone so far as to abolish the payroll, as such, entirely, substituting in its place merely a carbon copy of the entries made on the pay checks; and in this form it becomes more in the nature of a pay check register.

Where the individual annual earnings record is prepared first, as the work sheet, it usually becomes quarterly rather than an annual record so as to provide space for all of the necessary entries.

Another development retains the original sequence by preparing the payroll first as the work sheet. Economies are made at the other end of the series of operations as follows: Pay checks with accompanying stubs showing details of additions and deductions are prepared in duplicate, as before; but in this case, the duplicates are torn apart and filed in folders, one folder for each employee. This continues for a calendar quarter. Then the quarterly totals are summarized for each employee, using a simple adding or calculating machine, and these totals are entered in space provided on the folder which becomes the individual annual earnings record. The

duplicate checks are removed to a transfer file, leaving the folders empty for accumulation of the duplicates for the succeeding quarter.

Whether the payroll or the individual earnings record is prepared first, it becomes necessary to post to "Regular", "Overtime", and "Total" columns from the time clock card, the time and earnings record, or equivalent document. These columns are then added and balanced with the source media.

Using the individual earnings record as a guide, items which are not yet subject to such deductions as state income tax, because of insufficient cumulative earnings, are indicated by placing a dash in the appropriate deduction space. Likewise, items which are no longer subject to such deductions as old age benefits, because of having passed the maximum cumulative earnings limit, are similarly indicated in the deduction space. The variable deductions for the remaining items are then computed and entered, either by applying appropriate percentages to the "Total Pay" for the period or by consulting precalculated tables where these are practical.

These columns are then added and balanced. In most cases the best method of balancing each deduction column is to start with the grand total of the "Total Pay" column, deducting the total pay for those items not subject to the deduction, and apply appropriate deduction percentage to the difference. Some tolerance must be allowed for giving and taking fractions of a cent under this method of balancing.

Where the payroll serves as the work sheet, the indi-

vidual annual earnings record is posted separately. This may be done some time after the current payroll is completed, but the task must be finished before the next payroll is prepared so as to furnish the cumulative figures needed in computing old age benefit deductions or, in some cases, state income tax deductions. As before, the figures posted to each column should be drawn off separately on an adding machine and the totals balanced with the corresponding totals shown on the payroll. Where the work of compiling the earnings record is simplified by using carbon copies of the paychecks filed in folders, a tickler file or some other device is needed in the latter part of the year to flag the cut-off point where the \$3,000 maximum point is reached for old age benefit and unemployment insurance contributions and where the starting point is reached in states which require deductions from pay for personal income taxes. Where personnel relations permit it, these difficulties are met by making no change in deductions during the quarter, but adjusting the whole matter in the last pay check. While this is obviously the easiest solution mechanically, other considerations make it inadvisable to recommend it.

Finally, for each employee, deductions from gross pay are totaled and subtracted and the net amount due indicated. This column should also be added and the calculations balanced in total. Where several people work on the payroll records, each payroll sheet or individual earnings record control card has spaces for fixing responsibility for the various opera-

tions, for example--

Pay entered by.....Checked by.....

Deductions entered by.....Checked by.....

Extended and footed by.....Checked by.....

Completion of the payroll register makes necessary the preparation of a voucher to summarize the payroll. The exact form of the resulting journal entry depends on the form and number of special columns of the payroll register. It also depends upon the method of analyzing the changes to be made for labor costs.

CHAPTER VII  
PAYROLL SYSTEMS

Payroll systems fall into two broad general types--the manual systems and the mechanical installations.

Manual Systems

Under a manual system the payroll, the pay check or envelope, and the individual annual earnings record must normally be prepared separately. Work has been done on the development of boards or devices for holding the three documents in alignment so that they can be prepared simultaneously with the aid of spot carboned forms or carbon paper. This method will be discussed later.

An excellent manual payroll system designed for use in a plant operating multi-shifts is described by Burk. The last shift of the week goes off duty Thursday mornings and distribution of pay checks begins Thursday afternoons.

Daily time tickets are used. A portion of the summary section of each ticket (except Thursday, the first day of the payroll week) is cut away in such a way that when the tickets are superimposed all daily figures are visible and ready for summarizing. Burk states:

After checking the summary for accuracy and agreement with the clock card, the totals are transcribed by hand to payroll sheets prepared in advance, which already show clock numbers, names, rates, and fixed deductions. Payroll checks are prepared in advance on an addressing machine and show clock numbers, names and the dates of the close of the work.

Federal old age benefits tax and bond deductions are calculated and entered on the payroll at the same time

the time ticket summary is entered. As each page of the payroll is cross-footed, totaled, and balanced, the checks are completed, checked against the payroll, signed, and stuffed in envelopes preparatory to distribution.<sup>1</sup>

The pay check is provided with two stubs in the form of employees earnings statements. The extra stub is detached and retained by the company and is posted each week to a specially designed quarterly employees earning record. According to Burk:

The cards provide full information on each employee for the current quarter and the year to date without posting. Social Security tax returns can be prepared directly from these forms and the data on Federal income tax withholdings for each employee are readily available from this form.<sup>2</sup>

Pegboard System

As mentioned heretofore, methods have been developed and become standard practice for utilizing pegboards and other types of summary boards in summarizing original documents by mounting them in overlapping or shingled fashion so as to expose only the amounts to be summarized. An adaptation of this method to the preparation of payroll documents has been introduced with considerable success in the last few years. Operation of the system applies to the three forms, payroll check, payroll register, and the employees earnings record. In a modification of the plan, the flap of a pay envelope is substituted for the payroll check. All related documents are superimposed on the pegboard and overlapped. The forms are designed with standard spacing, so that any-

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<sup>1</sup>Frank O. Burk, "A Manual Payroll System for Present-Day Needs," N.A.C.A. Bulletin, Vol. 24, No. 10, Sec. I., Pp. 591-597.

<sup>2</sup>Loc. Cit.



thing written on the top form is automatically reproduced (through carbons) on the related forms in the proper space.

Employee name and number are entered some days before pay day. All the usual data concerning hours, deductions, etc., are posted, and net earnings are computed. As each payroll check is completed, it and the corresponding earnings record card are removed from peg strips, leaving the next payroll check and earnings record card exposed for posting.

After each payroll register sheet is completed, it is self-balanced. The grand total of all register sheets within a department is proved against the predetermined departmental total. This method claims several advantages. The most important of these is accuracy. Since original figures are duplicated through carbons, all three records are in agreement. This eliminates errors in copying from one form to another. No special or elaborate equipment is necessary beyond the pegboard and a calculating machine, making its operation relatively inexpensive. This method also has the advantage of speed. A clerk can easily assemble the forms in two minutes or less. The forms may be assembled on extra demountable peg strips in advance so as to be in readiness for payroll closing. The time required to post the payroll depends upon the character of the original payroll data and the number of deductions to be made. There is only one writing, one computation, and only one set of totals to balance; hence, operations are reduced to a minimum. Finally, the plan is

flexible. The work may be distributed among any desired number of clerks who can work simultaneously on the production of the payroll. Additional classifications can be accommodated without being limited by machine capacity.

#### Branch Office Payrolls

Where payrolls are prepared in branch offices, it is good practice to set up skeleton payrolls by the use of the Addressograph or other duplicating device at the central office in advance; then mail them to the respective field offices for completion. This establishes a valuable basis for internal check. The payroll, when completed, becomes the basis for replenishing the local imprest fund or payroll bank account.

The method of handling field payrolls that is used by a large chain bakery is described by Haskell and Robnett.<sup>3</sup> Near the beginning of the payroll week, the central office prepares the payroll record for each branch, using an addressing machine with a duplicating ribbon. The ending date of the payroll week and the number, name of each employee, and fixed deductions are shown. The records are then sent to the respective branches.

The chief clerk of the branch, with a duplicating pencil, indicates the class of work and department for each employee. Time worked and rate, gross payroll, social security deductions,

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<sup>3</sup>Robert Hashell and Ronald Robnett, "Some Applications of Duplicating Methods," N.A.C.A. Bulletin, Vol. 21, No. 22, Sec. I, Pp. 1399-1424.

and net pay are all computed and entered. The clerk then totals and proves the various money columns, and then completes and proves the payroll distribution which is shown on the same sheet as the payroll data. The payroll is then mailed back to the central office.

A numbering machine with duplicating ink is used to enter check numbers on the payroll register back in the central office. The sheet is then placed directly in the duplicating machine which reproduces the data on the individual earnings record, the branch copy of the payroll sheet, the cashier's record of disbursements, and individual payroll checks. The branch copy is a complete copy of the payroll sheet. The cashier's record shows only employee's name and number, check number, week ending, and net amount.

In the same organization, earnings records and pay checks are prepared by use of duplicators also. The printed forms are purchased in blocks, overlapped to correspond to the number found on the payroll sheet. Only the top line of each form is visible. The forms are held in place by a gummed strip. One direct duplication for each page prepares the earnings record and the check. The forms are then cut from the gummed border, the checks are signed and "protected" by machines and mailed to the branches for distribution. The employee's earnings records are individually filed and summarized quarterly on a file guide.

This method requires only one writing of the payroll data. The basic record provides all the information necessary

for direct preparation of each record or document involved. All proving is done on the original record. From then on, each record is an exact duplicate of the original data, avoiding the necessity for further computations or rechecking.

### Mechanical Installations

The form of the payroll, check or envelope, and earnings record and the methods of preparing them vary widely, depending largely upon the mechanical devices used. There are three types of machines used, depending upon their evolutionary origin, viz., those developed from the adding machine, the typewriter, and the cash register.

All of these devices are equipped with a special form-feeding mechanism to handle the payroll, pay check or envelope, and the individual annual earnings record, and when so equipped, they are known specifically as "payroll machines." In each of these classes there are a variety of minor subdivisions depending upon the particular make of machine.

An entirely different class of equipment which is used extensively for payroll preparation has evolved from the statistical machine which functions through the use of punched cards. Here again, there are two types causing minor variations to occur. These types are the alphabetic and non-alphabetic or numerical.

Most bookkeeping machine systems prepare the basic documents simultaneously. These include the payroll, pay check, and the employee earnings record. A fourth record is the

employee earning statement which is ordinarily attached to the pay check, or if payment is in cash, shown on a separate slip inserted in the pay envelope, or on the face of the envelope. Finally, the check register may also be prepared simultaneously with the other forms.

In making payment by check a number of concerns have found the deductions are so numerous that it is better to employ a coding system for deductions. This permits flexibility and avoids the necessity of using a check stub twice the size of the check as is now the case in some places. This is overcome by the substitution of vertical listing of deductions on the check stub instead of the more usual horizontal arrangement.

Somewhat similar in operation but not providing a concurrent check register is the system used by the Winchester Repeating Arms Company. The operation of the latter company's system is described in American Business as follows:

The sources for posting to the payroll records are shop payroll forms on which are shown hours worked by each employee each day as well as regular and overtime earnings. When all information for a particular pay has been received in the payroll accounting department (usually by Tuesday afternoon), hours and earnings figures appearing on the shop payroll forms are cross-footed and balanced by shops. Overtime, if any, is then added to regular earnings following which social security and Winchester Fund deductions are entered.

When this information has been recorded and balanced, the shop payroll forms go to the posting machine operators for preparation of the payroll records. Winchester's is entirely a check payroll which except for a few executives, is paid on Thursday and Friday each week.

Prior to this time, pay draft registers have been addressed with man's name, social security number, pay date,

check number, etc.

First, picking up the old balances of amount earned and as tax, the operator enters and prints the current amount earned and current social security tax, the machine automatically computing and printing totals to date for both.

The operator then picks up the old balance of hours worked and enters and prints the current hours with the machine automatically computing and printing the total to date. To complete the records, the operator enters the net pay figure, which automatically prints in two places on the check, and in one place on the employee's statement and pay draft register. All other deductions are then entered and printed in one operation.

The machine automatically accumulates totals of current gross earnings, current social security tax, amount earned to date, social security tax to date, miscellaneous deductions, insurance, Winchester Fund, amount paid, hours current and hours to date by shops, and these totals must agree with the control figures previously set up when the shop payroll forms were balanced. Possible errors are localized by balancing each shop's records independently, and since all related records are written simultaneously, absolute agreement between records is thus assured.<sup>4</sup>

Early in the operation of its plan, Winchester found that, due to inefficient arrangement around the machine of the posting media and the records to be posted, the production rate was suffering. This condition was corrected by placing the records closer to the machine so that the necessary operator arm travel was reduced. To promote sustained high-speed production of the payroll records, Winchester operators work in shifts of two hours each, then turn the work over to another set of operators who also post uninterruptedly for two hours each and so on until all the records have been posted. Of course, when not posting, all operators have

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<sup>4</sup>Lewis H. Brown, "Winchester's Improved Payroll System," American Business. Vol. 14, May, 1944, p. 21-24.

other duties to perform within the department.

### Tabulating Equipment

A system which is relatively new in the accounting field is a system using tabulating equipment. It is valuable for preparing payrolls and related documents, either numerically or alphabetically. Numerical equipment for payroll purposes is now becoming obsolete, because of the necessity for translating clock numbers into employee's names.

One of the most common popular fallacies concerning the use of tabulating equipment is that its use is justified only by larger corporations. Naturally there is a relationship between the volume of work to be handled and the size of the tabulating machines installation. Such installations however, can vary almost immeasurably in size. With tabulating equipment, there is an ease of expansion and complete flexibility known in no other system.<sup>5</sup>

The system begins with an ordinary weekly clock card. Daily payroll check sheets are prepared manually from time tickets or from individual daily time sheets. From these daily sheets, daily earning cards are punched. Separate premium check sheets are prepared daily to show the premium earnings of each worker. Additional earnings cards to cover these premiums are then punched for each worker. At the end of the week, separate bonus check sheets are prepared for each employee and the set of earning cards to cover the bonus is

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<sup>5</sup>Frank A. MacCauley, "Punched Card System of Payroll and Labor Cost Accounting," N.A.C.A. Bulletin, Vol. 24, No. 2, Sec. 1, Pp. 685-702.

punched. Several other cards are used in the operation of the system. First is the master name card. This is used for printing the name of a worker on the payroll sheet and on the pay receipt portion of the clock card. The master rate card is used for the mechanical extension of wage rates by the multiplier. The weekly summary earnings card is punched and used for accumulating weekly earnings on the tabulator and for calculations for payroll deductions on the multiplier. The recurrent master deductions card is prepared from a master deduction file to cover insurance, savings bonds, etc. The card is used one week in each month for recurrent deductions. A miscellaneous deductions card is punched and used for miscellaneous payroll deductions which are not recurrent. The quarterly summary card is used for social security and income reports to the government.

After the cards have been sorted and collated, they are then put back in the tabulator for the printing of the payroll. The company pays the workers in cash, using for this purpose a window envelope and enclosing a statement prepared on tabulating machines for use by the employee. It is, of course, possible to pay by check, using punched cards checks if desired. Such checks contain the usual information concerning deductions, etc.

Another illustration of a punched card system of payroll accounting is described by MacCauley. This system although employing different punched card equipment from the one



described above, eventually accomplishes the same purpose.

Operations begin with the recording of information on a tabulating card. A daily job card serves both for the manual notation of pertinent information concerning the job assigned and for a permanent punched-card record of designating information, hours, labor costs, and overhead for that specific phase of operation.

All written entries are made and such punching as is feasible is done in the plant. The cards are sent to the tabulating department where labor costs are extended into the job card. All labor costs as extended on the individual job cards are summarized at the close of the week into a single card for each man, which is known as the earnings summary card. Through the use of master cards, both variable and fixed deductions are made and a final card is produced containing total earnings, deductions, and net earnings.

This final card, originating from job cards, is then reconciled mechanically with a weekly attendance card, assuring complete agreement of payroll and job labor costs.

MacCauley suggests the use of a machine called a robot. It is not in widespread use, but is gaining popularity. It has innumerable uses. Its principal operation is to feed tabulating cards from two feeding magazines for the following purposes:

To reproduce from an original set of punched cards, either a duplicate set card for card, or many cards for one.

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To compare two sets of cards, for the purpose of verifying one set and if desired, for sorting cards which match from those which do not.

To compare two sets of punched cards, in order to reproduce all or part of the information contained by one set into matching cards of the other, at the same time sorting cards which match from those which do not match.<sup>6</sup>

Adjustment of the robot to its various functions is very simple. It involves only the turning of a single dial which adjusts the robot to the desired feeding, punching and sorting operations simultaneously. It is readily seen that this machine would be invaluable in payroll procedures.<sup>7</sup>

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<sup>6</sup>Ibid., Pp. 685-702.

<sup>7</sup>Loc.Cit.

## CHAPTER VIII

### PAYROLL DISBURSEMENT

A very important concept in payroll disbursement is to whom payment is to be made. Except in unusual cases such as the incapacitation or death of the employee, or to comply with legal requirements, salary or wage payments are made only to the employee to whom they are due. Where these payments are to be made to some other person, approval in writing is first obtained from the personnel manager, the legal department, or some other qualified high official of the company.

Advances of unearned salary or wages should never be made. When authorized advances are made against the portions of salary or wages already earned, proper deductions are made for social security, personal income, and other required purposes. A separate pay receipt is taken for each pay period, and these are held until the respective payrolls are made up, at which time the advance pay receipts are attached to the appropriate payrolls.

Special payments to employees leaving the service may be made for reasons such as vacation compensation adjustment, payment on account of lay-off, or payment in lieu of notice to the employee dismissed. Such payments should be properly approved in advance, and full explanation should be noted on the payroll. Payment to an employee leaving the service should never be made until the last day on which actual service is expected.

### Payment in Cash

Payment in cash requires some means of safeguarding the funds from the time they leave the bank until they reach the employees. Some form must be provided on which to obtain the employees acknowledgment of receipt of the pay. Distribution of the cash into pay envelopes involves considerable work, and if not done carefully, errors are bound to occur. The one advantage of this method is that it gives an opportunity to balance the whole cash operation before any cash is handed out.

To fill pay envelopes efficiently, it is necessary to have on hand the proper quantities of currency and coin of the various denominations. This is accomplished by the process known as "denominating the payroll." The payroll is provided with ten or more additional columns for the denominations from one cent to twenty dollars. Sometimes a separate form, ruled horizontally to match the payroll rulings is used for this purpose. The denominations required to pay each item on the payroll are tallied, and the columns are totaled and balanced. A check for the total amount is drawn and presented to the bank with a list of the total quantities required of each denomination. It is important to count the cash immediately upon receipt from the bank, so that the bank may be notified in case of any discrepancies. Also, if it is not verified and there is a mistake, it will not show up until all envelopes have been filled, and then a lot of needless detail ensues to prove envelope-fillings are correct

and the original amount of the cash incorrect.

The job of placing proper amounts in each pay envelope is entirely completed to insure against overage or shortages before any envelopes are distributed. If the roll is large, each page may be totaled separately and recapitulation prepared to obtain the grand totals. The paymaster can break down the total actual cash in accordance with the page totals preparatory to distributing the cash for each page into the corresponding pay envelopes. This makes it much easier to locate the error within a single page in case of overage or shortage.

When pay envelopes are delivered, the contents are checked by the employee, in the presence of the paymaster or other disbursing official. A receipt for the net amount is signed by the recipient and this is used by the paymaster to discharge his responsibility for the cash. Some concerns have a perforated receipt slip attached to the pay envelope for this purpose. Others, in order to save time at the pay window distribute receipts to employees, in advance through their foremen so that the employees may raise any questions and sign their receipts before they reach the pay window. This also serves as an additional identification.

#### Payment by Check

Payment by check is gradually supplanting payment by cash in the large cities, due principally to the hazard involved in handling large sums of money both in transit and on the

the premises. Since the indorsed check constitutes a receipt, no separate document is needed for this purpose. Payment by check does not, however, entirely avoid the necessity for safeguarding funds. Some means must be provided for cashing the checks; this is good personnel practice and is mandatory under the laws of some states. If possible, arrangements are made with a nearby bank for cashing the checks. In order to facilitate such a procedure, the bank is advised that the employees will present identification cards or badges supplied by the company at the time of cashing their checks. If such arrangements cannot be made, then the paymaster himself must set up a window for the purpose. This is perhaps worse than payment in cash in the first place, because the funds must be safeguarded over a longer period, congestion at the window when the workmen leave work is harder to avoid, or as an alternative they must be permitted to cash checks on company time. If an error occurs in any transaction there is no means of detecting it until the day's work is balanced, when it is too late to trace or rectify the error. Finally, payment by check involves the task of reconciling the payroll bank account with the check register.

Where payment is made by check and the payroll is large enough to justify it, a special payroll bank account is used. This special account designated "Account No. 2", "Special", or other identifying term is established and maintained by drawing checks on the regular company account and depositing them in the special account. The latter is used only for

salary and wage payments, including amounts remitted to institutions to the credit of employees in connection with savings, insurance, union dues, and similar payroll deduction plans.

In some cases arrangements may be made to pay the bank a flat fee for its services, calculated on the basis of the number of checks handled each pay day. In other cases, it is satisfactory to deposit in Account No. 2 the approximate amount of the payroll in round figures two or three days in advance of pay day, so that the use of the money during this period plus the normal float of the pay checks compensates the bank in part for its services in the handling of the special account. The amount so deposited is normally less than the net amount of the completed payroll. In any case, when the payroll has been completed, the final deposit for the current period is made in an amount sufficient to bring the balance in Account No. 2 up to the exact net amount of the payroll for which checks have been drawn, so that after all checks for the period have been issued, the account balances as shown by the check register.

A separate check register or bank register is maintained for the Payroll Cash Account, and is used to account for every check number in the series. Consecutive check numbers of the same date may be entered by groups. For example, 601-750, since details as to payee and amount for individual checks appear on the payroll or its equivalent. In some mechanical installations, payroll journal and check register

are combined on one form. Any checks spoiled in the course of preparation or voided for any reason before issuance are entered in the check register with appropriate explanation. If a check is cancelled and superseded by another, appropriate cross references are made in connection with the entries for both checks. If a check is voided or canceled for any reason, the word "canceled" is stamped or written across the face of the check and holes are punched in the signature space; no check is destroyed.

The checks used for payroll payments are usually of a different color from those used in connection with the regular account, and the name of the special account, e.g., "Account No. 2", or Pay Draft, Pay Warrant, etc., is printed conspicuously. Checks for the weekly payrolls may have a legend such as "Not good for more than \$100.00," printed conspicuously across the face of the checks. In other respects the payroll checks may be similar in design to the regular checks of the company.

The internal control for the blank checks will be discussed in the next chapter.

The day and time of day for paying off depends on the individual set-up, layout of the plant, number of employees, and various details. The day for paying off should be as soon after the pay period closes as possible, allowing enough time to prepare the payroll without sacrificing accuracy. The time for paying off is so fixed that it does not interfere with the proper, efficient operation of the plant. Work-



men have a tendency to let up on pay day, and for this reason the pay hour is important. A stagger method of payment is used by large organizations; that is, different departments are paid off on different days, at different times. This permits an even flow of payroll work, and makes possible the handling and paying of the payroll by a few employees, and payment by one or more paymasters, according to the number of employees.

As to the place of payment, if the number of employees permits it is well to pay from pay booths or pay windows. These should be so located that employees can be paid rapidly, and also that they do not block either road or foot transportation or other company business.

The simplest method of identifying employees is by employee's badge or check number. There are other methods, depending on the plant layout. If there are not too many employees, the paymaster or whoever pays off generally knows the employees, if not by their full names, at least by first names, and can check, at the same time the employee gives his check number. In small plants with few employees, this question does not come up. In this connection, it is well to remember that most concerns prohibit assignment, that is, transferring of a right to wages by one worker to another.

The question of who pays off is an important one, more so if payment is in cash than by check, as under certain conditions if this matter is not carefully handled, padding

of the payroll is possible. It should be so set that no manipulating of the pay envelopes is at all possible. The paymaster naturally pays off, if the organization uses one. This is in accord with sound principles of internal check. Aside from the fact that it is their duty to handle cash in any event, it reduces the number of employees to be bonded. Some accountants, however, have suggested rotation of duties to combat the ever-present danger of padding of the payroll. Thus if distribution is normally made by the paymaster's department, the routine might be taken over at intervals by the timekeeping department. This method is probably not favored to any great extent. Instead rotation within the department, that is, of assistant paymasters and even of the clerical functions, can be worked out and made to yield substantial benefits.

If an employee loses his pay check he makes written request for its replacement, explaining the circumstances fully and stating whether or not it was indorsed. The company is not liable for the amount of an indorsed check which is lost, and employees should be cautioned against indorsing checks until they are cashed or deposited. If the lost check is unindorsed, the cashier finds out whether or not the check has already been returned by the bank, and if not requests the bank to stop payment. Upon receipt of stop-payment confirmation from the bank, a new check bearing a new date and number is issued, and a suitable notation is made on the check register.

### Unclaimed Wages

If payment is not claimed at the regular time, the pay envelope is returned unopened to someone responsible for seeing that such envelopes are held in a safe place for a reasonable period until claimed by the employee. Sound internal check requires that these envelopes be held by someone who does not handle other company funds; this is usually the paymaster. When the employee eventually claims his pay, particular care should be taken to insure that he is properly identified in order to prevent some other worker under an assumed name from getting the pay envelope. After the lapse of a reasonable period, from 24 hours to one week, envelopes still unclaimed are opened under suitable controls and the cash turned over to the general cashier to be merged with the other company funds and deposited in the bank. Unclaimed wages account is credited and a suitable subsidiary ledger record is set up. If the salary is later claimed, payment is made by voucher and charged to Unclaimed Wages.

If the unclaimed wages are in check form, the cashier indorses the check himself as cashier, as follows:

Pay to the order of John Doe, Cashier

(signed) John Doe

Below this is written a cross-reference to the document which carries the original credit to Accounts Payable--Unclaimed Wages account. The cashier then deposits the check in his Payroll Cash account.

Sometimes unclaimed wages are turned over to a repre-

representative of the personnel department, who makes delivery a pretext for the initial call to check on the reason for absence. In such cases, a signature on the signed receipt turned in by the personnel representative should be carefully verified with the signature on the service record.

When all transactions are completed, as above, the net total of the payroll minus the credit to Unclaimed Wages is balanced with the file of the signed receipts.

A well-known industrial company with a head office and many operating subsidiaries has established the following procedure in connection with unclaimed wages:

The unclaimed wages of each plant are temporarily retained at the plant. Semi-annually those remaining unclaimed for more than three months are transferred to the head office, giving rise on the main office books to the following entry:

General Cash

Miscellaneous Accounts Payable--Unclaimed Wages

The head office keeps a subsidiary record of unclaimed wages which shows the date credited, name of the employee, check number (original check), departmental classification, a column for each plant, payroll period, amount unclaimed, settlement date, and the check number of the new check drawn.

Annually, any net credit balance in Miscellaneous Accounts Payable--Unclaimed Wages is closed to Non-operating Income. The reason for not letting unclaimed wages remain as a liability until the expiration of the statute of limitations is that in experience of this company, wages not claimed within three

months are seldom, if ever, claimed.

After the above transfer is made, claims for unclaimed wages are referred by each plant to the main office. When claims have been verified, a new check is drawn. If the amount involved applies to a prior year, the entry is:

Non-operating Losses

General Cash

If the amount involved applies to the current year, the entry is:

Misc. Accounts Payable--Unclaimed Wages

General Cash.

## CHAPTER IX

### INTERNAL CONTROL AND AUDITS OF THE PAYROLL

#### Control of Payroll Funds

One of the ever-present hazards incidental to the preparation of payroll checks in both large and small amounts is the possibility of dishonesty on the part of the employees entrusted with their issuance. The trusted employee can be regarded as wholly honest only when control measures prevent the exercise of any hidden talents he may have for payroll padding.<sup>1</sup>

The solution to the problem becomes one of the surrounding check issuance with so thorough a system of control that a potential embezzler simply cannot launch his attack.

The matter must start with the people who are to be employed in the payroll department. A reasonable investigation should be made of every applicant for employment, whether or not he is to have anything to do with check issuance, and particular care should be shown in examining employees who are to be trusted with payroll preparation and will have access to blank-check stock and payroll equipment. Once an applicant has been accepted, he should be covered by a fidelity bond. The mere existence of the bond does not eliminate the possibility of crime, of course; on the other hand, it does protect the check issuer against possible loss if the bond is adequate in amount. There is another factor. Employees, knowing they are bonded, react in a healthy way psychologically; the bond

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<sup>1</sup>George W. Adlam, "Control of Payroll Funds," Journal of Accountancy, Vol. 83, Feb. 1947, Pp. 124-128.

acts as a deterrent to possible criminal intentions. They know that if they default and are arrested their punishment will be swift and sure.

The investigation of applicants is no guarantee of their continued honesty. For this reason, constant check must be made upon the payroll employees.

Most concerns issuing payroll checks have developed a distinct check form that has, through constant use, become familiar to merchants and bank tellers. Cashiers know they should identify people who present checks for cashing; but the regularity with which merchants and tellers accept checks, particularly if issued by concerns well known in their communities, opens the way to bank-account robbery. Thus cashiers themselves assist in the easy negotiation of fraudulent instruments. To eliminate this hazard, payroll departments must maintain constant vigil over their blank-check forms; if embezzlers do not have access to them, short of their ability to produce counterfeits, their hands are securely tied.

Checks should always be numbered serially by the manufacturer, a factor which insures proper control not only of checks as they are issued but of remaining inventories. They should be stored with the same regard for safekeeping that is displayed in the guarding of currency. After they are printed, they should reach the hands of only bonded payroll employees. Every check, whether spoiled or used, should be accounted for. People within payroll departments should be switched from job to job--suddenly without advance notice; they should

never be permitted to perform the same job continuously. Thus if one employee attempts to manipulate the payroll, another employee will discover it and probably publish his findings; knowing this, tempted payroll clerks are likely to tread the safe and narrow path.

Control should not stop with the blank checks; it should continue until the check is in the hands of the employee. The technique of proper distribution can be made fairly simple. If checks are given to foremen for transfer to employees, a list of all checks issued should be made out in duplicate, one copy to remain in the payroll department and the other to be signed by the foreman and later returned to the payroll department and retained there. If possible, the list should be so arranged so that the foreman could obtain the employee's signature as evidence that the checks have been delivered. In cases where distribution is made by paymasters, similar controls should be in effect. In large distributions it may not be practicable to obtain employee receipts; in that case, employees should be identified by badge and name before the checks are turned over to them. The procedure is simple and provides reasonable assurance of safety.

The signing of checks is of special importance in the problem of control; the objective is to set up impediments to signature forgery. Facsimile or rubber stamp signatures are used by many companies to save time for the executive. These devices which make for easy reproductions are always dangerous. Facsimile signatures should be under absolute



control of officers or bonded employees and should be used only in metered machines that record every impression made. Check signers are much better for purposes of control than handwritten signatures, since they count all checks being signed and save hours of executive time.

To complete the bulwark of control needed in payroll work, particular care should be given to bank reconciliation. The first step is to arrange with the drawee banks to return canceled checks at frequent intervals--every week if possible. In no instance should a given payroll remain unreconciled for more than 30 days. The job of reconciling bank statements moreover, should never be entrusted to employees who prepare payroll checks and records. Obviously, if payroll padding is being done, employees who do the padding can cover their tracks if the canceled checks are returned to them. If canceled checks, on the other hand, reach other employees, padding is likely to be exposed. Thus the "cover-up" and destruction of fraudulent items is usually impossible.

For these reasons, the reconciliation is usually done by the controller's department or some auditing staff other than the one which prepares the payroll records and checks. Duplicate bank deposit slips, stamped by the bank, pages of the check register, pages of the completed payrolls, and any voided checks are all forwarded promptly to the controller or auditor. The latter obtains bank statements and paid checks directly from the bank. Upon receipt of the bank statement, the total of the several deposits for each payroll

period as shown on the bank statement is checked against the corresponding payroll totals after due allowance is made for deductions retained by the company. Canceled checks from the bank and voided checks from the payroll department are sorted together into one numerical sequence. Missing numbers are listed from information shown on the payroll, and this list of outstanding checks is used in reconciling the balance per bank statement with the balance per check register (the latter normally being zero). Checks outstanding an undue length of time are followed up with a request that they be cashed.

#### Auditing the Payroll Bank Account

Occasional audits should be made. They should go through and beyond the usual reconciliation operations. It must be established that all checks of a given payroll are authorized, that they have been issued to current employees, that these employees are, in fact, entitled to the amounts for which the checks are drawn, and that the named payees have received their checks, endorsed them, and converted them to cash.

Preferably, audits should be made without the knowledge of payroll employees. In any event, they should be taken without advance notice; this is particularly important where it is necessary to have reconciliation done by clerks who prepare the payroll. Audits act as a final measure of control and effectively police payroll preparation and distribution.

The entire problem of safeguarding the integrity of the payroll figures rests, in the last analysis, with the controller and his internal audit staff. Aside from special payroll audits

and investigations, the payroll auditing work can be standardized through the issuance of a payroll audit manual.

A system of internal control and audits as described here reduces the chance for embezzlement to a minimum. Every concern should incorporate as many of the features of the system into its procedures as are applicable to the business.

## CHAPTER X

### SUMMARY AND CONCLUSIONS

#### Summary

In these days of phenomenal production and correspondingly increased payrolls there have arisen some very real problems in the handling of payrolls and the making of labor cost distributions. In order to meet these needs special care must be taken to organize the payroll department properly so as to reap the greatest benefit from effort and expense put forth.

The basic record of payroll preparation is the payroll change recommendation; this recommendation normally originates in the personnel department. These payroll change recommendations are prepared by a supervisory employee who is authorized to do so. He lists all changes in payroll status among the employees under his jurisdiction; the recommendations are approved and passed on to the payroll department, where the change of status is put into effect. It is from these records that the payroll is prepared.

The responsibility for keeping a record of the hours worked by each employee is vested in the timekeeping department. It may be a division of the payroll department or a separate division, depending upon the needs of the firm. The hours worked by each employee are recorded and reported to the payroll department. The hours multiplied by the base rate as found on the payroll change recommendation gives the base pay of the employee.

However, there are usually many adjustments to be made before the net amount to be paid is found. There may be additions, such as bonuses, reimbursement for expenses, overtime pay, commissions, carfare allowances, etc., to be added to the base pay. The deductions are next to be considered. They fall into two general groups: those which are constant period after period and those which are variable. Examples of the first type of deduction are insurance premiums, savings bonds, thrift plan deductions, and other such items which regularly recur and are always the same amount. Most of the variable deductions are a result of Federal and state legislation concerning unemployment benefits, workmen's compensation, etc. Most important of this legislation is probably the Federal Social Security Act and the Federal Income Tax Law. Both of these laws require deductions to be made every pay period of an amount dependent upon the gross pay of the period. These laws and others requiring deductions from the gross pay should be consulted to insure compliance by the employer.

When the additions and deductions have been calculated and the amount of net pay is found, all this information is entered on the payroll itself. The payroll will vary in form but should always be designed to provide the greatest utility to the employer. A large amount of the information required by law can be recorded directly on the payroll, eliminating the need for additional records. The form of the payroll will vary, depending upon what type system is used to prepare the

record. A manual system may be used, or if the volume of work warrants it, a mechanical system may be installed. Each employer must decide which system will be most satisfactory and economical for his firm.

Special care should be exercised in controlling the custody of payroll funds and their disbursement. Payroll checks should be different and easily distinguishable from the regular checks. They should be numbered consecutively and kept under control of only bonded employees; they should be guarded as closely as cash itself. Receipts should be required of the employee when he receives his check to show proof of delivery.

Frequent reconciliations should be made of the payroll bank account and the returned payroll checks. Occasional audits are necessary to complete the system of internal control. These should be made without advance notice to the payroll clerks. The payroll records should be checked thoroughly to insure against embezzlement of the payroll funds.

### Conclusions

There is no regulation or law that tells an employer what records he should keep or how they should be kept. This is left to the discretion of the individual employer. He is permitted to set up his own system in any manner he chooses, so long as he has a record of the information the various government agencies require of him. But every employer naturally wishes to keep his records in the most efficient and economical manner. He wants to save time and clerical cost, and he wants to have the information available so that he can get his

quarterly reports out accurately and on time. It is not a matter of purchasing ink and paper forms with beautifully ruled lines and column headings. The person responsible for setting up the payroll system should take into consideration the significance of every heading, every column, every ruled line, every law, rule, regulation or act that made that heading, that column, and that line necessary on that payroll record.

Regardless of the method employed or of the equipment and forms in use, there are few concerns which could not profitably analyze their payroll accounting procedures and make proper adjustments along the lines suggested in this thesis. In these days when wages are high and time is at a premium, this is one area of business management which should get careful attention. In many factories today the payroll department has allowed itself to become over-burdened with duplication of effort and an excessive number of separate records.<sup>1</sup> However, despite the disadvantages it imposes, the legislation concerning payroll accounting has brought the payroll department into the limelight and impressed upon the employer the importance of adequate records in this department. Basing an opinion on an intensive survey of material on payroll accounting, the writer feels qualified to say that the influence of legislation affecting payrolls constitutes one of the greatest forces causing the development of sound payroll accounting practice in the history of payroll accounting.

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<sup>1</sup>William L. Totten, "Simplified Payroll Accounting Procedure", N.A.C.A. Bulletin, Vol. 24, p. 685.

### Recommendations

In order to make the payroll department as efficient as possible it is recommended that those charged with the responsibility of payroll operations should take the following steps: (1) prepare a flow chart of present procedure, listing each step followed in making up the payroll; (2) study these steps to find out how much duplication there is; that is, look at each form and find out how much information is posted on that form which is subsequently or previously posted on another; (3) investigate the possibility and practicability of making one essential record a by-product of another; (4) eliminate duplication of effort, and thereby save time in checking and proving.

The records should be arranged in a manner so that the data required by the various laws will be at hand. A great deal of time is wasted in thousands of organizations simply because clerks are required to refer to three or more records to provide a given agency with the data it requires.

If the employer will follow these steps and revise his payroll department according to the plan which best fits his firm's needs, he will find that his overhead costs for payroll accounting are reduced, his chance of non-compliance with the law is minimized, and his payroll records will be adequate for every normal need.



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