

SUA - Payroll and Inventory



Payroll System

SUA Chapter 5

Characteristics of the Payroll System

- **Similar to the purchases and cash disbursements system however**
 - ◆ employees are retained long-term
 - ◆ tax withholding laws and fringe benefits require a special consideration
 - ◆ commonly a separate bank account is used
 - ◆ commonly a separate journal is used (payroll journal)
 - ◆ both the purchase of labor and cash paid for it are recorded at the same time in the same journal

Accountant's Objectives

1. **Record all transactions**
 - at correct values
 - to correct accounts
 - in the correct period
2. **accrued payroll and payroll taxes at the balance sheet date are correctly valued**
3. **Include all material disclosures affecting the accounts in the statements and related footnotes.**

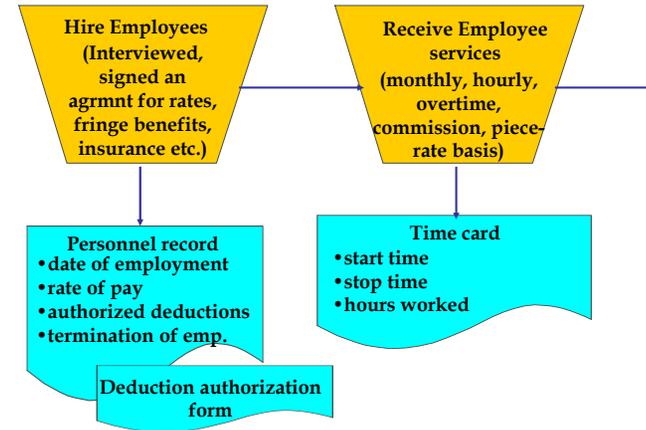
Common Source Documents and Functions

Payroll Cycle

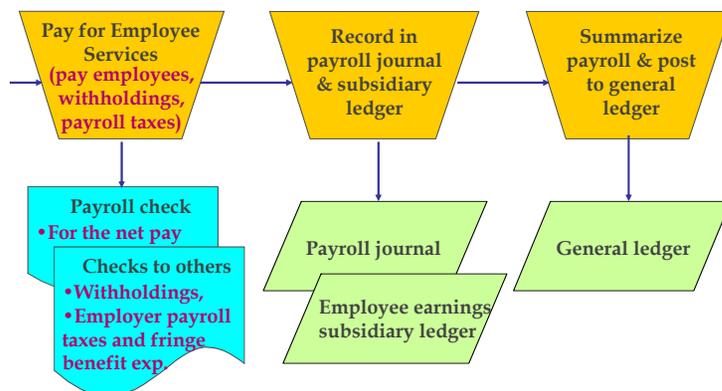
Source Document Function

W4 forms	Collect employee withholding data.
Time cards	Record time worked by employees.
Job time tickets	Record time spent on specific jobs.

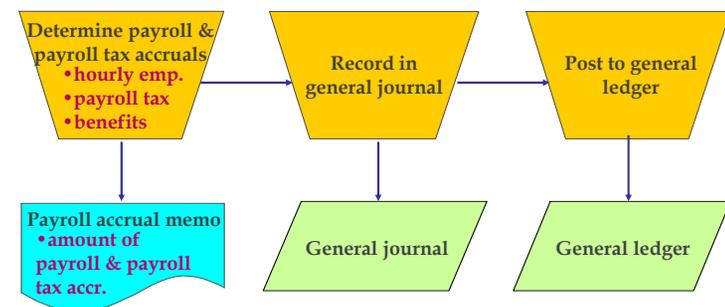
Receipt of & Payment for Employee Services



Receipt of & Payment for Employee Service



Payroll and Payroll Tax Accruals



Internal Controls of a Payroll System

- **Adequate documents and records**
 - use of formal time cards
 - payment by check (no cash)
 - both documents should be pre-numbered
- **Authorization of transactions, by initialing documents;**
 - hiring of personnel,
 - wage rate,
 - regular and overtime hours approved on a weekly basis by a person familiar with the work,
 - dismissal of personnel.
- **Use of time clocks and controls to insure that employees clock-in only their own cards.**

Internal Controls - continued

- **Segregation of duties. Signed payroll checks should not be handled or accessed by**
 - personnel who hire or dismiss staff,
 - anyone who collects or approves time cards,
 - anyone who prepares payroll checks, related account records, or payroll bank reconciliation.
- **Imprest payroll cash -- use of a separate bank account.**
 - cash receipt - weekly transfer on the payroll date, from the general cash account.
 - cash disbursement - employee checks only
 - taxes, fringe expenses etc. are paid from general cash account.

Internal Controls - continued

- **Independent checks on performance**
 - prepare bank reconciliation,
 - recalculate hours shown on the time cards,
 - compare wage rates,
 - compare withholdings
 - account for all payroll time cards and checks.

Inventory System

SUA Chapter 6

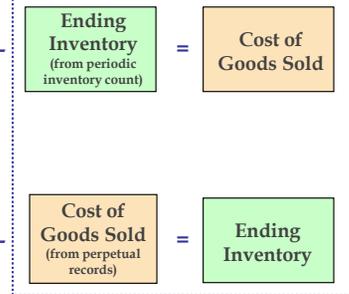
Periodic vs. Perpetual Inventory

Periodic Inventory:



The difference between the two methods

Perpetual Inventory:



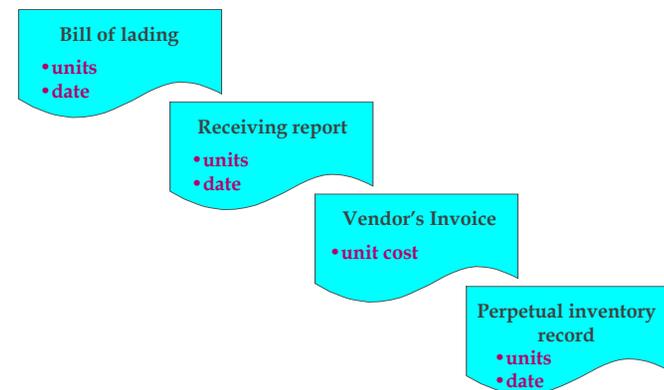
Periodic Inventory

- ❖ What is the ending value of inventory?
- ❖ Count inventory using tags or count sheets,
 - on balance sheet date,
 - record the quantity, description, and the condition of inv.
- ❖ Summarize inventory by description before costing,
- ❖ Determine correct unit cost of inventory,
 - Depend on the cost method (FIFO, LIFO, etc)
 - WIP inventory will also include overhead and labor,
 - Lower of Cost or Market adjustment.
- ❖ Extend price x quantity & add for total inventory value,
- ❖ Record in general ledger by a journal entry.

Perpetual Inventory

- ❖ There will be two accounting entries for each sale
 - ❖ Record the sale
 - ❖ Record the cost of goods sold
- ❖ Benefits
 - ◆ The quantity and dollar value on hand is known at all times
 - ◆ Provide information about theft and spoilage.
- ❖ Source of information (subcycles that effect perpetual inventory)
 - ◆ Sales (inventory items only)
 - ◆ Sales returns (not sales allowances)
 - ◆ Purchases (inventory items only)
 - ◆ Purchase returns (inventory returns only)
- ❖ Periodic physical count of the actual inventory & period end adjustment.

Source Documents for Inventory Data



Perpetual Inventory - continued

❖ Detailed Perpetual Inventory Records

- ◆ units & unit costs of each type of inventory are listed.



Internal Controls

- ❖ In addition to the previously mentioned controls;
- ❖ Perpetual records are useful for
 - ◆ control of stock levels,
 - ◆ determining theft of inventory.
- ❖ Segregation of duties
 - ◆ a person should be responsible for inventory,
 - ◆ another person for maintaining perpetual records,
 - ◆ ideally another one for accounting.
- ❖ Safekeeping of inventory, in a locked location.
- ❖ Independent checks on performance.
 - ◆ independent counts of ending inventory
 - ◆ recalculation of unit and total costs of inventory