Payroll Accruals

# Why do we accrue payroll expenses?

Governmental Accounting Standards Board (GASB) Statement 34 issued in June 1999 requires accrual accounting for all government activities and generally requires all capital assets to be depreciated. Governmental Accounting Standards Board Statement 35 is an amendment of GASB Statement No. 34. It means that GASB 34 also applies to public colleges and universities.

# Types of Payroll Accruals

There are two types of payroll accruals:

1. Generated offsets for each payroll;
2. Month-end bi-weekly payroll accruals

## Generated Offsets for Each Payroll

When payroll expenses are passed from the labor ledger to the general ledger, offsets are generated to balance the accounting entries. Generally, this offset occurs in object code 9050 (Salaries Payable) which is very similar to object code 9043 used to record accounts payable liabilities. The following table shows sample entries from the offset definition table, which dictates the offset balance type and object code used for a given document type.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Fiscal Year | Chart | Document Type | Document Name | Balance Type | Generated OffsetObject Code |
| 2021 | BL | PAY | Normal Payroll Activity | AC | 9050 |
| 2021 | BL | PAYA | Payroll Accruals | AC | 9050 |
| 2021 | BL | PAYC | Payroll Cancellation | AC | 8000 |
| 2021 | BL | PAYD | Payroll Disbursement | AC | 8000 |
| 2021 | BL | PAYE | Payroll Encumbrances | IE | 9891 |
| 2021 | BL | PAYN | Reverse Payroll Accruals | AC | 9050 |
| 2021 | BL | PAYR | Deductions, Tax, and Liabilities | AC | 8000 |
| 2021 | BL | RETR | Retroactive Adjustments | AC | 8000 |

Below are sample entries created when payroll M004012921 was posted from HRMS/Peoplesoft on 1/25/21:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Account | Object | Doc Type | Doc Number | Debit | Credit |
| 10-200-00 | 2400 | PAY | M04012921 | $10,000 |  |
| 10-200-00 | 9050 | PAY | M04012921 |  | $10,000 |

The following entries, reversing the liability and crediting cash, were then created when payroll M004012921 was paid on 1/29/21:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Account | Object | Doc Type | Doc Number | Debit | Credit |
| 10-200-00 | 9050 | PAY | M04012921 | $10,000 |  |
| 10-200-00 | 8000 | PAY | M04012921 |  | $10,000 |

## Month-End Bi-Weekly Payroll Accruals

At the end of each month, there are bi-weekly payroll expenses earned but not yet reflected in the university’s accounting ledgers.

Based on the partial payroll calendar below, bi-weekly payroll B002010821 had a period end date of 12/26/2020 and was posted as a January payroll (fiscal period 07). However, this entire payroll was earned in December. Bi-weekly payroll B003012221 had a period end date of 1/9/2021 and was also posted as a January payroll. Of the 10 working days (Monday-Friday) covered by this payroll, four days occurred in December and six days occurred in January. For the December monthly operating statements, payroll expenses were accrued for the 14 working days earned in December but not yet posted. The accrual was based upon the last available bi-weekly payroll processed.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Group | Pay Run ID | Pay Period Begin Date | Pay Period End Date | Check Date | Period | Fiscal Year |
| BW1 | B041122420 | 11/29/2020 | 12/12/2020 | 12/24/2020 | 06 | 2021 |
| BW1 | B002010821 | 12/13/2020 | 12/26/2020 | 1/8/2021 | 07 | 2021 |
| BW1 | B003012221 | 12/27/2020 | 1/9/2021 | 1/22/2021 | 07 | 2021 |

In this example, the base for the accrual estimate was bi-weekly payroll B041122420.

Accrual Calculation:

*Last bi-weekly payroll of period* × (*number of days to accrue* ÷ *number of days in a bi-weekly pay period*)

or

*Amounts from B041122420* × (14 ÷ 10)

### Included Earn Codes

The following table shows the earn codes selected by the bi-weekly payroll accrual program:

|  |  |  |  |
| --- | --- | --- | --- |
| Earn Code | Description | Selected? | Example Object Code |
| RGN | Regular Pay Nonexempt Staff | Y | 2500 |
| RBP | Regular Pay Biweekly Professional | Y | 2480 |
| RGH | Regular Pay Temporary | Y | 3000/3500 |
| RGP | Regular Pay Temp with Retire | Y | 3050 |
| RGW | Regular Pay Temp Workstudy | N | 3800 |
| OOR | California Overtime Rt | N | 3200 |
| FSI | Flat Rate Stagehand-Infl | Y | 3000 |
| FSR | Flat Rate Stagehand-Reg | Y | 3000 |

For bi-weekly staff, leave earn types (sick, vacation, military, injury, etc.) are also accrued.

Currently, overpayments, cancellations, and hand-drawn payments are processed with off-cycle payrolls and would be excluded from this accrual program. Also, clearing account expenses and supplemental pays are excluded from the calculation. At this time, retroactive adjustments processed with bi-weekly payrolls would be included in the payroll accrual calculation.

When generating the accounting entries, the program will list as part of the document number the payrolls that are being accrued and reversed. In December, the document number used was ACCR-0203, indicating that the accrual was for bi-weekly payrolls B002010821 and B003012221.

Accruals are posted with a document type of “PAYA” and reversed using document type “PAYN”. Both of these document types have an offset object code of 9050 and do not affect cash.

To prevent overdrafts and to retain the budget-to-actual-to-encumbrance comparison, payroll accruals and reversals are accompanied by offsetting encumbrance transactions:

**Example Accruals from December:**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Account | Object | Balance Type | Doc Type | Doc Number | Debit | Credit |
| 19-126-10 | 2500 | AC | PAYA | ACCR-0203 | $10,000 |  |
| 19-126-10 | 9050 | AC | PAYA | ACCR-0203 |  | $10,000 |
| 19-126-10 | 2500 | IE | PAYE | ACCR-0203 |  | $10,000 |
| 19-126-10 | 9891 | IE | PAYE | ACCR-0203 | $10,000 |  |

The accrual records estimated payroll expenses in the month earned.

**Example Reversals from January:**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Account | Object | Balance Type | Doc Type | Doc Number | Debit | Credit |
| 19-126-10 | 2500 | AC | PAYN | ACCR-0203 |  | $10,000 |
| 19-126-10 | 9050 | AC | PAYN | ACCR-0203 | $10,000 |  |
| 19-126-10 | 2500 | IE | PAYE | ACCR-0203 | $10,000 |  |
| 19-126-10 | 9891 | IE | PAYE | ACCR-0203 |  | $10,000 |

The accrual reversals offset the actual payroll expenses that were booked by HRMS/Peoplesoft when payrolls B002010821 and B003012221 were posted to January.