Microsoft® Office Accounting Professional 2007 Step by Step

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Microsoft® Press

Chapter at a Glance

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16 Managing Employee Time and Payroll

In this chapter, you will learn to:

✔ Manage employee records.

✔ Track employee time.

✔ Do payroll yourself.

✔ Prepare and file payroll tax returns.

✔ Manage payroll.

Employees are the backbone of any business. Even if you have only one employee, yourself, it's your knowledge and time that make the business go. Tracking your employees' work throughout the week is essential to both accurate customer billing and correct payments to your employees.

In this chapter, you will learn how to create and edit employee records, track employee time, and manage your company's payroll.

> **Troubleshooting** Graphics and operating system–related instructions in this book reflect the Windows Vista user interface. If your computer is running Windows XP and you experience trouble following the instructions as written, please refer to the "Information for Readers Running Windows XP" section at the beginning of this book.

Managing Employee Records

In Microsoft Office Accounting 2007, you manage employee records from the Employees home page, which you can display by clicking Employees in the Navigation Pane.

The Employees home page contains entries for standard tasks such as entering new employee records, recording employee time, and running payroll, but you don't have to use the Employees home page to initiate those tasks. If you prefer, you can also start those processes from the Employees menu.
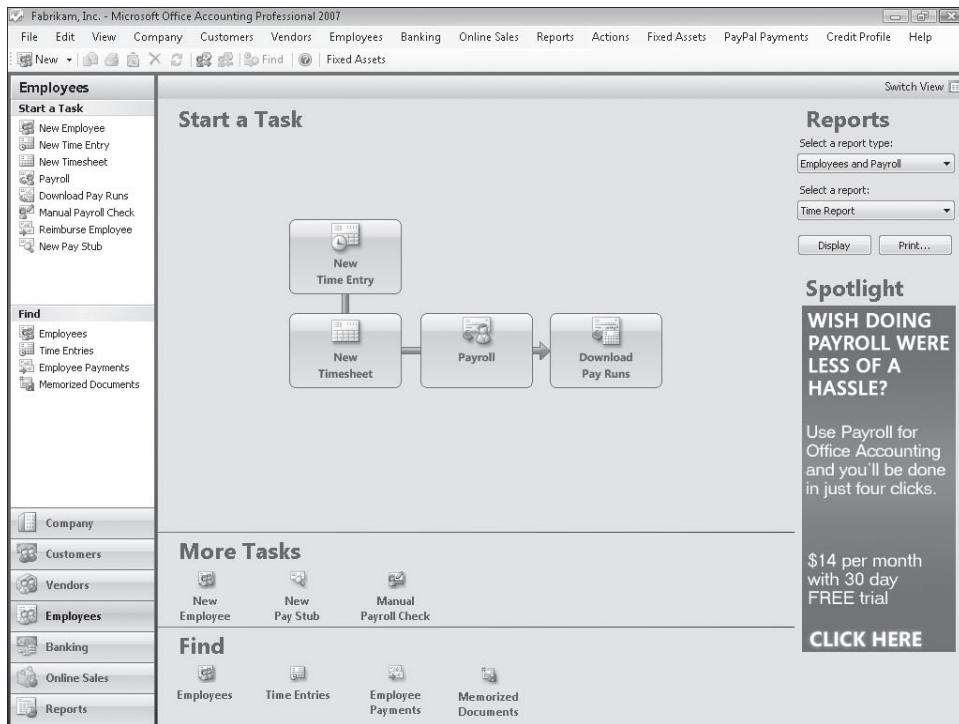
Creating New Employee Records

After you hire an employee, you need to enter that individual's information into Accounting so that you can record work done by the new employee, add that person to your payroll system, and pay the employee for time worked. To create a new employee record, display the Employees home page, and then in the More Tasks section, click New Employee. A blank Employee form opens.

Most of the form fields are self-evident, but the fields in the Addresses, Phone And Fax Numbers, and E-mail sections require some explanation. You can actually add more than one address, phone number, fax number, and e-mail address to each employee's record. For example, when you click the Home arrow under the Phone And Fax Numbers section of the form, Accounting displays a list that contains the items Home, Business, Mobile, Assistant, and Other. If you click Mobile, *Home* changes to Mobile, and the Home number field is replaced by a blank field into which you can type the employee's mobile phone number.

In this exercise, you will add a new employee record to the Fabrikam sample database.

OPEN the Fabrikam sample company file.

1. In the **Navigation Pane**, click the **Employees** button.

   The Employees home page appears.

2. In the **More Tasks** section of the **Employees** home page, click **New Employee**.

   An untitled Employee form opens.

3. In the **Employee Name** field, type **Bob Gage**.

4. In the **Job title** field, type **Assistant Manager**.

5. Under **Addresses**, in the **Home** field, type **789 Sycamore St.** on the first line, press **Enter**, and then type on the next line **Redmond, WA 22180**.

6. Under **Phone and fax numbers**, in the field currently labeled **Home**, type **(540) 555-0144**.

7. Under **Phone and fax numbers,** click the **Home** arrow, and then click **Mobile**.

The label of the Home field changes to *Mobile.*

8. In the field now labeled **Mobile**, type (403) 555-0110.

9. Under **E-mail**, in the **E-mail 1** field, type bob.gage.

10. In the **Gender** list, click **Male**.

11. In the **Date of birth** field, type 8/9/1973.

12. In the **Date of hire** field, type 4/14/2005.

13. In the **Date of last review** field, type 10/14/2006.

14. On the form window toolbar, click the **Save and Close** button.
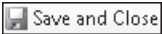
Accounting saves your employee record.

Viewing and Manipulating the Employee List

Accounting 2007 groups all of your employee records into one list, the Employee List. To display the Employee List, click Employees in the Navigation Pane, and then, in the Find section of the Employees home page, click Employees.

You can edit an employee's information by double-clicking the appropriate record in the list, or add a new employee record by clicking the Add A New Employee item just below the list's header row.

See Also For more information about sorting, filtering, and searching a list, refer to "Viewing the Item List" in Chapter 5, "Managing Products and Services."

Editing Employee Records

Because employees move, change phone numbers, and get new e-mail addresses, you need to be able to edit their records to reflect their new contact information. If you do need to edit an employee's record, you can display the Employee List, double-click the record you want, and make the edits in the Employee form that opens.

In this exercise, you will edit the employee record you created for Bob Gage earlier in this chapter.

OPEN the Fabrikam sample file if you have closed it.

1. In the **Navigation Pane**, click **Employees**.
2. In the **Find** section of the **Employees** home page, click **Employees**.
3. In the Employee List that appears, double-click the record for Bob Gage.

   The Employee form for Bob Gage opens.

4. In the **Date of last review** field, type 11/14/2005.
5. On the form window toolbar, click the **Save and Close** button.
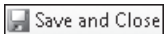
   Accounting saves the edited employee record.

Employees vs. Contractors

If you're like most small-business owners, you'll find yourself confronted with operating decisions from the day you begin planning your business. One of these decisions surrounds whether to hire contractors, employees, or both to support your operations and to serve your customers. All three options have advantages as well as disadvantages, but one consideration becomes very important as you establish these relationships. The working agreements that you put into place between your company and its employees/contractors will determine how you pay taxes to the Internal Revenue Service (IRS) and other agencies. Therefore, you must ensure that these agreements clearly represent the relationships between you.

The IRS provides guidelines as to its definition of e*mployee* and *contractor* in *Publication 15-A, Employer's Supplemental Tax Guide*, provided by the IRS. This document can be found within the Forms And Publications section of the IRS Web site (*www.irs.gov*). However, despite the general tests that you can read about in this publication and elsewhere, the differences between the two working relationships are sometimes confusing. You probably won't be surprised to learn that the primary difference in the treatment of employees and contractors lies in the area of payroll taxes. With employees, your business has to pay and withhold the employees' taxes, such as income (state and federal), social security, and Medicare, and has to pay "matches" on some of these. You also have to pay unemployment taxes, based upon the wages you pay the employees.

With contractors, you do not withhold or pay any of these taxes. The most you would typically do is to file a Form 1099 for each contractor, with which you provide information to the IRS about what you have paid them and other details.

So which relationship(s) should you establish to get yourself the help you need to run your business? Here are a few general guidelines.

Employees

When you hire employees, you are required to withhold state and federal income taxes. You are required to withhold and match Social Security and Medicare taxes. Finally, you have to pay state and federal unemployment taxes on the employees' wages. You also have to bear the cost of accounting for, and reporting upon, the significant amount of data that a payroll system generates. (These costs are sometimes overlooked or minimized in general planning of a new business.) The primary disadvantage with employees, then, is obvious: payroll taxes, not to mention other employment and benefit costs, can be quite costly.

Even after all this, you might agree with many business owners, and cite advantages with maintaining part-time or full-time employees. Among the advantages, you might say that you have more direct control over the work and behavior of employees, as opposed to contractors. You might also agree that, by treating your employees well, and sharing the success of your organization with them, you can build great retention and overall loyalty (and therefore more long-term, reliable workers).

Contractors

Contractors, according to most definitions, are distinguished from employees largely by *independence*. After being given a task, for example, they determine their plans to accomplish their assignments—and develop schedules to complete their work—independently of the company for which they are working. Other characteristics of contractors are as follows:

- They may perform their work (or substantial parts of it) off your premises.
- They may bring their own tools and supplies (such as computers).
- They may have unreimbursed business expenses.
- They may be subject to realizing a profit or incurring a loss (based upon the work they perform).
- They may offer their services to the general market at large on an ongoing basis.

Among the disadvantages of using non-employees, business owners often cite limited control over the methods, practices, and overall behavior of contractors. Moreover, contractors often command higher fees than employees—especially in cases where they offer specialized services.

Advantages of hiring contractors are often considerable: Independent contractors can be hired on an "as-needed" basis to keep payroll costs under control, and they can often provide specialized expertise (and perhaps mentor internal staff, to whom they can turn over the results of their efforts when they have accomplished the intended objectives). In virtually every case where they are appropriately used, independent contractors mean savings on taxes and employee benefits. Moreover, the burden of accounting and reporting is significantly lightened.

Documenting Your Relationships with Employees and Contractors

Whichever relationship(s) you decide to establish, you might also want to keep in mind the "type of relationship" considerations that the IRS considers as adequate support of a contract relationship, and document your relationships with your contractors accordingly. These "facts that show how the parties perceive their relationship" are significant contract ingredients, and include:

- Written contracts describing the relationship you intended to create with the contractor.

- The extent to which the worker is available to perform services for other businesses, similar to your own company.

- Whether your business provides the worker with employee-type benefits, such as insurance, a pension plan, vacation pay, or sick pay. (Specific statements to the contrary are excellent additions to your contracts.)

- The permanency of your relationship with the contractor (that is, your contract clearly states that it is not permanent).

- The extent to which services performed by the worker are a key aspect of the regular business of the company. ("Specialty" work looks much more appropriate for a contractor.)

You are the best judge of the appropriate relationships to establish with your workers. But keep in mind that, in choosing the employee or the contractor treatment in any given case, you should make the nature of the relationship and the rewards and benefits that the relationship entails—or specifically excludes—clear to everyone involved. Documenting the relationship by using IRS and other guidelines will help you to defend yourself against attacks that might arise if, for example, your contractors appear to have employee benefits.

Tracking Employee Time

As a small-business owner, you must pay close attention to how your employees allocate their time. Not only do you need to record their time so you know what work is getting done, but you also need to use your employees' time records to bill your clients for the labor it took to complete their projects.

Creating One Time Entry

When your employees submit their hours worked using a paper form or an Excel spread-sheet, you or a trusted assistant can enter their hours into the program. If you need to create a single entry, you can add their time into the Time Entry List by displaying the Employees home page, and then in the Start A Task section of the home page, by clicking New Time Entry to open a blank Time Entry form.

In the Time Entry form, you can select the employee's name, the name of the customer (if any) for whom the work was done, the billing item (an item from your item list), the job name (if any), and whether the time can be billed to the customer. The right side of the Time Entry form contains fields for you to enter the hours worked and the date the work began. When you're done creating the time entry, click the Save And Close button on the form's toolbar to record it in Accounting.

Editing a Time Entry

If you or your assistant makes a mistake while creating a time entry, you can display the Time Entry List, open the form that contains the time entry, edit the information, and then save it. To edit a time entry, display the Employees home page, and then in the Find section of the home page, click Time Entries.

In the Time Entry List, double-click the time entry you want to edit to open it in a Time Entry form, enter your changes, and then click the Save And Close button to record them.

See Also For more information about sorting, filtering, and searching in lists, refer to "Viewing the Item List" in Chapter 5, "Managing Products and Services."

Creating Multiple Time Entries by Using a Timesheet

Recording single time entries is fine for part-time employees or contractors, but regular employees who put in 40 or more hours a week will probably submit a week's worth of time at once. In Accounting, you can enter time for a week in a *timesheet*. To display a timesheet, display the Employees home page, and then in the Start A Task section of the home page, click New Timesheet. A blank weekly Timesheet form opens.

Each grid row in a timesheet is roughly equivalent to a Time Entry form. You can select whether the hours are billable to a client, the work you did, how many hours you spent on a project, and on which day you worked those hours. The Timesheet form summarizes your hours for you, displaying both daily and weekly hour totals.

Important Resist the temptation to wait until the end of the week to record your hours! It's too easy to forget what you did and potentially bill the wrong client.

In this exercise, you will enter an employee's billable hours for a day by using a timesheet, add an entry by using the Time Entry List, and then edit a time entry.
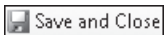
Troubleshooting The dates you enter into a Timesheet or Time Entry form must be in your company's current fiscal year. If Accounting won't accept the dates listed in the following exercise steps, change the dates so that they are in your company's current fiscal year.

OPEN the Fabrikam sample file if you have closed it.

1. In the **Navigation Pane**, click **Employees**.

2. In the **More Tasks** section of the **Employees** home page, click **New Timesheet**.

   An untitled weekly Timesheet form opens.

3. In the **Select week** field, type the date of a Monday in your current fiscal year (for example, 7/23/2007.

   The dates in the time sheet change to reflect the week that begins on the date you entered.

4. Click the **Employee name** arrow, and then click **Stefan Delmarco**.

5. In the first row of the grid, select the **Billable** check box.

6. Click in the **Customer** field, click the arrow that appears, and then click **Alpine Ski House**.

7. Press the Tab key to move the insertion point to the **Billing item** field.

8. In the **Billing item** list, click **Electrical labor (TM)**, and then press Tab to move the insertion point to the **Description** field.

9. In the **Description** field, type Emergency electrical repair, and then press Tab twice to move the insertion point to the **Monday** field.

10. In the **Monday** field, type 8, and then press Tab to move to the next field.

11. Repeat the previous step three times to record eight hours of work for Tuesday, Wednesday, and Thursday of the current week.

    The calculated entries in the Total row at the bottom of the grid change to reflect your entries.

12. On the form window toolbar, click the **Save and Close** button.

Accounting saves the timesheet, closes it, and writes its contents to the Time Entry List.

13. On the **Employees** home page, in the **Find** section, click **Time Entries**.

The Time Entry List appears.

> **Note** If you don't see the time entries you just created, click Current View and then click Not Invoiced to display time entries that haven't been invoiced to a client.

14. Just below the **Time Entry List** headers, click **Add a new Time Entry**.

A Time Entry form opens.

15. Click the **Employee name** field, and then click **Stefan Delmarco**.

16. In the **Customer name** list, click **Alpine Ski House**.

17. In the **Billing item** list, click **Electrical labor (TM)**.

18. Select the **Billable** check box.

19. In the **Duration (hours)** field, type 9.

20. In the **Start date** field, type 7/27/2007.

> **Important** This date must be in your current fiscal year. You should enter the date of the Friday in the week you used earlier in this exercise.

21. Click the **Save and Close** button.

Accounting saves your entry and displays the Time Entry List.

22. Double-click the time entry for **7/27/2007**.

The entry appears in a Time Entry form.

23. In the **Duration (hours)** field, type 8.

24. Click the **Save and Close** button.

Accounting saves your entry and displays the Time Entry List.

Doing Payroll Yourself

If you choose to do payroll yourself (to save the cost of an outside service bureau or perhaps for another reason), you will want to make sure that you have several items in place and on hand, and that you are aware of other considerations. These items include the following:

- **Employer Identification Number (EIN)** Sometimes called a *Federal Tax Identification Number*, an EIN is used to identify your business entity. Businesses typically need an EIN, and can obtain one in multiple ways. No matter where you do business, you can almost always apply for and receive a federal EIN from the IRS immediately.

  You can complete the application process for an EIN online. Moreover, you can obtain the Application for Employer Identification Number (Form SS-4) at the IRS Web site (*www.irs.gov*), or call the IRS and order one (and then send in the form). In addition to ordering the SS-4 over the phone, you can actually apply for the EIN via a phone call, and then mail the completed form to the IRS. This method works well when you need an EIN quickly—for example, as a requirement for completing another of the forms in this list or elsewhere. (Banks, insurers, client prospects, and others routinely ask for this information.)

- **State Employer ID** If the state in which you operate has a state income tax, you'll have to register and obtain an employer identification number from your state Department Of Revenue or Treasury Department. (If you're engaging in retail sales, you will also need to obtain a sales tax license at the same location.)

- **Form W-4** Another important documentation requirement you'll encounter in setting up your payroll tax capabilities is the federal W-4 form. Each employee fills out the W-4 form (you obtain these, too, from the IRS) to alert you to their filing statuses and the number of exemptions to which they are entitled. You'll use this information for things like determining the amounts you withhold.

- **Unemployment Tax ID** You will need to obtain an unemployment tax ID. As an employer, you must also contribute to the federal unemployment tax fund on behalf of your employees. The Federal Unemployment Tax Act (FUTA) imposes the tax (your business, not the employee, pays the tax) on the first $7,000 of wages you pay annually to each employee. You make your payments of the tax to the IRS either once a quarter, or in a single lump sum at year end (if the total tax for all your employees is less than $500).

  You must also pay unemployment taxes to your state unemployment fund. These tax rates vary by state (ranging from around 0.5 percent to around 10 percent) and you (again, not the employee—except in Alaska) pay them quarterly.

  The FUTA tax rate is 6.2 percent per employee, but if you (the employer) contribute to your state unemployment fund by the specified due dates, the FUTA rate can be reduced to 0.8 percent per employee. Your state unemployment tax rate will typically increase/decrease based upon various factors surrounding your industry, the number of years you have been operating, and your historical experience with regard to your previous employees who have filed unemployment claims.

● **Withholdings and FICA** Taxes Another ongoing requirement of maintaining payroll on your own is to withhold payroll taxes from your employees' paychecks. This is a requirement if you are the only employee of your company, as well. Withholding includes federal income taxes, as well as the following taxes:

  ● Social Security (part of FICA—6.2 percent, to a wage base of $97,500 in 2007)

  ● Medicare (part of FICA—2.9 percent for employee and employer, with no maximum wage base, in 2007)

  ● State and city (where applicable)

  You are required to match each dollar of Social Security and Medicare tax that is withheld from each employee when you remit withholdings to the IRS. (If it's any consolation, your total match amounts are tax deductible.)

● **Other** Other payroll-related tax considerations might apply to your company. This is particularly true at the state and local levels. You can find out more about these requirements through industry and other professional associations, as well as through myriad small-business Web sites. For more detailed information on the Federal considerations above, refer to *Publication 15, Circular E, Employer's Tax Guide*. It can be found within the Forms And Publications section on the IRS Web site (*www.irs.gov*).

Best Practices: Preparing and Filing Payroll Tax Returns

Although it may not come as good news to thrifty small-business owners, the cost of outsourcing payroll is often a wise investment. Obvious benefits accrue, including far less need for personal research, preparation time, and worry—which translates to more time to devote to other areas of your business operations. You also have the peace of mind that your company is in compliance with tax laws.

Keep in mind that, although choosing to outsource payroll will likely help you save a great deal of time and focus, it will not relieve you of ultimate payment and reporting responsibilities. You have to ensure that your payroll taxes are really being timely paid. Multiple owners and employees of financial services firms have been recently convicted of stealing payroll taxes paid to them by their clients. The same has happened, of course, with celebrity business managers and the like in prominent cases in the last few years. You remain responsible to the IRS and other agencies for the taxes even if the payroll provider fails to remit the funds as expected, and will still owe the money after the irregularities come to light (with added penalties, of course, for failure to file, pay, and other reasons).

One action you can take to help minimize damage in scenarios like this is to require proof of insurance or a bond (either of which should reimburse you for stolen tax payments or other issues) from your payroll provider. Another step you can take helps prevent a common strategy of would-be evildoers—an attempt to prevent warnings about missed payments from the taxing agencies from reaching you. To do this, you can verify with the IRS/other agencies on a recurring basis to make sure your company's address of record remains unchanged. Finally, and most helpful in preventing theft or other issues with your payroll deposits when you are outsourcing payroll, you can confirm the fact that your deposits have been timely made by verifying your company's payment history online—if you require your payroll provider to use the Electronic Federal Tax Payment System (EFTPS) with the IRS, and respective state and local systems, as applicable. If the provider resists using EFTPS, it's probably a good indicator to take your business elsewhere.

Whether you outsource payroll or do it yourself, timely filing and payment of payroll taxes is, by far, the most important of payroll-related best practices. Another best practice, especially if you maintain payroll for more than just two or three employees (including yourself), is to maintain your payroll in a separate bank account (or accounts) you have opened for that purpose. You transfer the required amounts from your regular, operating accounts to the payroll account(s) to cover each cycle's payroll. You then write all payroll checks, including employee wages and deposits, from the payroll account(s). Not only does this practice help you to keep the likelihood of confusion as to payments minimal, but it supports timely payroll reporting, as well as making it easy for you to estimate your prospective monthly payroll and related costs.

Managing Payroll

Managing your company's payroll requires you to write checks, calculate taxes and deductions, and file reports with the appropriate tax authorities. You can handle these tasks yourself, or you can outsource the payroll functions to an online service. This section shows you how to perform the necessary tasks under either scenario.

Outsourcing Payroll Processing

Handling payroll requirements takes time and energy. If you would like to delegate the responsibility of handling your payroll, you can take advantage of the built-in Accounting partnership with Automatic Data Processing, Inc. (ADP).

In this exercise you will sign up for ADP payroll processing.

OPEN a company file other than the two sample files that came with Accounting. You can't get into the online payroll sign-up process from a sample company file.

1. In the **Navigation Pane**, click **Employees**.

2. On the **Employees** home page, in the **Start a Task** section, click **Payroll**.

The Payroll Powered By ADP page appears.
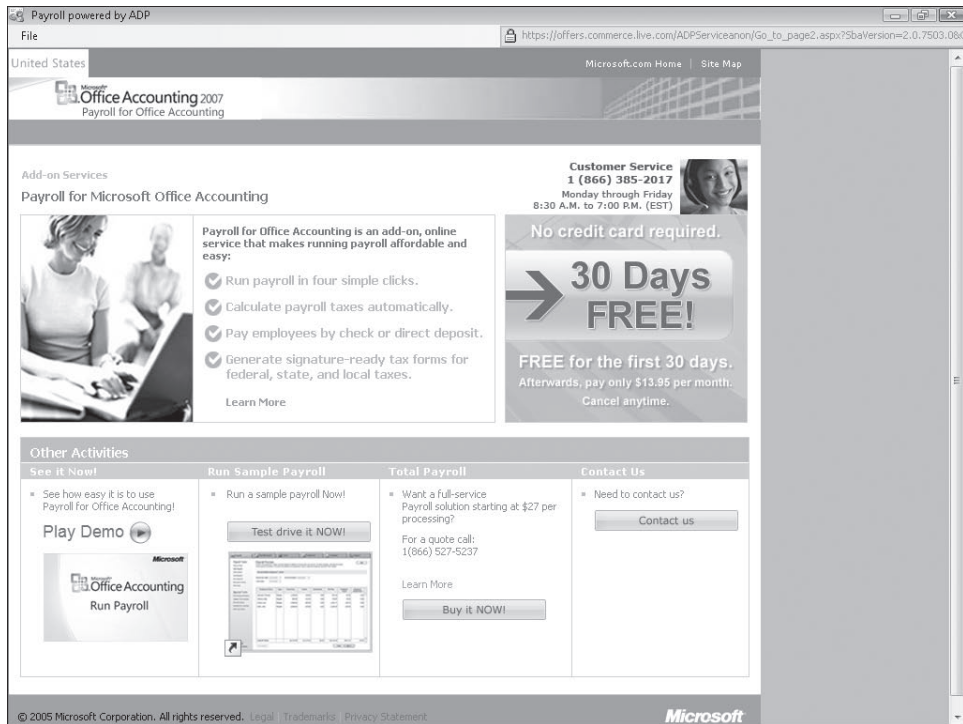
3. Click the button representing the action you want to take.

4. Follow the instructions on the Web page to sign up for ADP online payroll processing.

5. When you are done, click the **Close** button to return to Accounting.

Close

Payroll Tax Liabilities Are Serious Business

Whether you use a payroll service or prepare your own payroll, timely filing and payment of payroll taxes, especially the amounts you withhold from your employees' pay, is one of the most important responsibilities your business has. After you (or your payroll provider) have accurately calculated payroll taxes, your next step is to remit them to the appropriate federal and state agencies. You are ultimately responsible for meeting assigned deposit schedules, and you must meet deadlines to avoid paying costly penalties or perhaps suffering other unpleasant consequences. You can be held personally liable—even if you have established your business as a Limited Liability Company (LLC) or corporation, or if your business has declared bankruptcy—if payroll taxes are not timely paid.

You might find yourself, like many small-business owners, tempted to "borrow" from withholding and other payroll tax funds to resolve cash flow issues in business operations, or to meet other immediate needs, leading you to fail to timely file and report payroll taxes. The vast majority of new businesses are undercapitalized, according to the Small Business Administration, setting up an environment where their owners put off paying their payroll taxes for a short period. When no action by the IRS or other tax agencies is immediately forthcoming, the owners often begin to believe that the payroll tax funds can be used as a short-term, stopgap loan—a loan, they reason, that they can cover in a later quarter. When it catches up with them, often after several quarters of deferrals, severe penalties and interest are added to the original tax amounts, and the totals become difficult—often impossible—to catch up. This often ends with closure of the business, and with the owner personally becoming liable for the combined totals.

Downloading Payroll Information

One benefit of the integration between Accounting and ADP payroll processing is that you can download ADP payroll records into Accounting as a series of journal entries. As you view your payroll records on the ADP system, you'll be able to group the records by employee or company. You'll have to check your ADP account information to learn the full range of possibilities.

> **Note** The journal entries contain pay type information that you can view in the Transaction Detail By Account report. After you download payroll for the first time, Accounting will make the Pay Type field available in the Time Entry form and in timesheets.

In this exercise, you will download payroll information from ADP.

> **BE SURE TO** have your ADP payroll account user ID and password at hand. You also need to be connected to the Internet to download your payroll information.
>
> **OPEN** a company file other than the two sample files that came with Accounting. You can't get into the online payroll sign-up process from a sample company file.

1. In the **Navigation Pane**, click **Employees**.

2. Under **Start a Task** on the **Employees** home page, click **Download Pay Runs**.

   The Download Pay Runs page appears.

3. Follow the instructions in the **Download Pay Runs** page.

4. On the toolbar, click the **Save and Close** button.
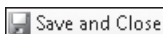
   Accounting saves your payroll records as journal entries.

Reporting Considerations: Employees, Time, and Payroll

Reports that you base upon payroll, and the expense/withholding activity involved, focus upon the employees to whom you have paid wages, based upon the time they have worked, over the dates the work has taken place. You can also generate reports presenting payments to the IRS and other tax agencies, based upon your activity, and balances accumulated, within the expense and withholding accounts set up by Accounting 2007 as a part of creating your company.

These accounts, one series of which is used to record your wages and benefits (and other specific wage types, if you added them to the chart of accounts), as the business owner, and another separate series, which is used to record the same information for your employees, will serve as the lion's share of the basis for your analysis and reporting of employees, time, and payroll. Even if you outsource your payroll (for example, via the integrated Accounting 2007/ADP payroll processing option), you can generate reports based upon payroll records you download into Accounting as a series of journal entries.

Typical "views" by which you might arrange employee, time, and payroll information include, of course, employees and dates. The analysis and reporting opportunities within this arena offer rich business intelligence returns that will help you to understand your operations, and to continuously improve your business. Perhaps most important of all, you can generate reports to present the information that you will transfer to payroll tax returns (quarterly and annual) and wage statements, ensuring easy filing that ties directly to your accounting system.

Key Points

- Enter your employees into Accounting so that you can start tracking their time and payroll information.
- You and your employees can create individual time entries in the Time Entry List or use timesheets to fill in an entire week on one form.
- When you write payroll checks for yourself or for your employees, be sure to create entries for any taxes you owe on those salaries.
- If you don't have the time to handle payroll information manually, consider signing up for online processing through ADP or another service.