Payroll Liability Adjustment

**Contents**:

A payroll item may be adjusted if it is determined that a payroll liability balance is incorrect and needs to be adjusted.   Liability balance adjustments change the amounts that QuickBooks shows in the payroll reports. For Payroll liability adjustments not identified below, consult with your QuickBooks Trainer or QuickBooks Administrator.

Do not change Payroll liability amount in the Liability check!

This will result in an incorrect payroll liability "amount due" or a liability overpayment in the Pay Payroll liability screen. In some instances, you may void the liability check transaction in the checking Register and re-select the liabilities in the Pay Payroll Liability screen. Create a new Check.
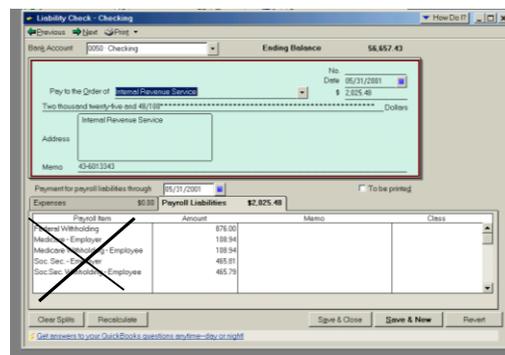
Consider Simple Adjustments first.

If the paycheck or Liability check has not been printed, then **edit** the appropriate employer or employee payroll item in the paycheck transaction.
- Double-click the employee's paycheck transaction in the **checking register**.
- Select **Paycheck Detail** button.
- Change the appropriate employee or employer amounts in question and Click **OK**.
- Save and close the paycheck transaction.
- **Record** your changes.
  All related employee or employer expense and liability accounts will be adjusted.

If the paycheck has been created and assigned a check number but not delivered to the employee, determine if it is necessary to **void** the paycheck and then recreate the paycheck transaction.
- Click once in the employee's paycheck transaction in the checking register.
- Select **Edit** from menu bar.
- Select **Void Paycheck**.
- Click the **Record** button at bottom right of checking register.
- Write "**Void**" on the actual paycheck.
- Create a new paycheck for the employee.

If the payroll liability check was created and the paycheck was voided, the liability check also will need to be voided.

Debit and Credit Effect

	Debit	Credit	Effect
Cash (bank or any asset acct)	increase	decrease	Credit is reduction of cash
Income account	decrease	increase	Debit is reduction of Income
Expense account	increase	decrease	Credit is reduction of expense
Liability account (payroll, accts Payable)	decrease	increase	Debit is reduction of liability
Receivable account	increase	decrease	Credit is reduction of receivable

Liability Adjustments

On some occasions, an **employer** payroll item expense can be changed under the **Company Summary section** of the Paycheck transaction even if the employee's paycheck was printed and given to the employee. For example: **overstated or understated** payroll expense amount, unnecessary FUTA tax charged, etc.   Determine if payroll liability check needs to be voided.

- Open the employee's paycheck transaction.
- Select **Paycheck Detail** button.
- Select **unlock net pay.**
- Change the **employer's amount** for a specific payroll item.
- **Save** the transaction.

Company Summary		
ITEM NAME	AMOUNT	YTD
MCHCP Medical Ben...	70.00	70.00
Soc. Sec. - Employer	58.90	58.90
Medicare - Employer	13.77	13.77
MO - Unemployment ...	28.50	28.50

Review page 2 of the [Payroll Procedure Outline](#) for an understanding of debits and credits for payroll liabilities and payroll expenses.

Scenario 1 - Adjust the Employer's Payroll Expense
In this scenario, a portion of the employer's share of the Medicare has been overstated. The liability has not been paid.

- Open the appropriate employee's paycheck transaction.
- Select the **Paycheck Detail** button.
- Select **Unlock Net Pay**.
- Under Company Summary, adjust the employer's Medicare tax amount.
- Select **Ok**. Then **Save & Close**.

In the Liabilities screen, the Medicare liability amount will be adjusted.

The Payroll Liability Adjustment Screen

If the criteria for the above-mentioned simple liability adjustments cannot be realized, then use the QuickBooks Liability Adjustment screen.

Scenario 2 - Adjust Employee's Deduction – Paycheck already cashed.
In this sample scenario, medical insurance inadvertently was withheld from the employee's paycheck.   Employee's paycheck was distributed and cashed. $100.00 is owed to the employee.

If the paycheck has been printed and distributed to the employee, do not void the paycheck. Instead, create appropriate liability adjustments and a refund check.

✓	Due Date	Status	Payment	Period	Amount Due
	04/30/07	Overdue	MCHCP Medical Withholding	Mar 2007	100.00
	11/15/07	Upcoming	Federal 941/944	Oct 2007	293.58
	01/31/08	Upcoming	MO Withholding	Q4 2007	35.00
	01/31/08	Upcoming	MO Unemployment Insurance	Q4 2007	42.66
			Total Selected Items:		0.00

Pay Scheduled Liabilities

The liability displays in the Scheduled Liabilities screen and the Payroll Liability screen. **Adjust the Medical Withholding Liability** and **write a non-payroll check** to the employee to reimburse the $100.00.

Adjust the Medical Withholding Liability
- Select **Employees** from menu bar, **Payroll Taxes and Liabilities**, **Adjust Payroll Liabilities.**
- Enter appropriate dates in the **Date** and **Effective Date** fields.
- Select **Employee** name. (employee will be reimbursed)

- Do **not** enter a Class Code! (Remember: liability transactions are not assigned a class code.)
- Select the appropriate **payroll item** under **Item Name.**
- Enter amount with a **minus** sign. You are reducing the liability.
- Describe why you are adjusting the liability in the **Memo** field.
- Under **Accounts Affected button**, be certain **Affect Liabilities and Expense accounts** is selected. Click **OK**. Click **OK**.
- When prompted about the class code, click **Save Anyway**.
- In the Account for Employee Liabilities screen, select **9000-Payroll Liabilities**. You will create a temporary liability to reimburse the employee.
- Click OK. The amount will be removed from the Payroll Liability screen.

Next, write a non-payroll check to reimburse the employee. See following procedure.

- **Write a Non-Payroll Check to the Employee (Reimbursement)**
    o In the Write Checks screen, prepare a check to the employee. However, create and **use a vendor name for this person**. Do not use the name from the employee list.
    o Select **9000-**Payroll Liabilities account. Ignore the warning about payroll liabilities.
    o Do **NOT** assign a Class Code!
    o Save.

Here is the how the transactions will appear in the liability accounts.

MCHCP Medical Liability adjusted to zero.

9055 · MCHCP Medical Payable						0.00
Redford, Robert	03/31/2007	6418	Paycheck		100.00	100.00
Redford, Robert	10/04/2007		Liability Adj...	Cancel Me...	100.00		0.00
Total 9055 · MCHCP Medical Payable				100.00	100.00	0.00

Non-payroll Reimbursement Check.

9000 · Payroll Liabilities - Other					0.00
Redford, Robert	10/04/2007	Liability Adj...		100.00	100.00
Redford, Robert (v)	10/05/2007	Check	100.00		0.00
Total 9000 · Payroll Liabilities - Other			100.00	100.00	0.00

Scenario 3 – Employer's Payroll Liability Incorrectly Adjusted in the Liability Check Transaction

In this scenario, the employer's retirement liability originally was $50 (employee's share $50). When the liability check transaction was created, the bookkeeper discovered that the Invoice amount was $110.00. Instead of changing the employer's amount in the paycheck transaction, the amount was changed in the liability check. Liability Check was mailed.

Originally, the $60 employer retirement liability was $50. Bookkeeper changed amount in liability check transaction. This was NOT a good idea!

The Liability Account now has a **negative $10 balance**, which suggests an overpayment. The image below illustrates how this -$10.00 will appear in the Payroll Tax liability screen.

✓	Payroll Item	Payable To	Balance	Amt. To Pay
	MO - Unemployment Company	Mo Dept of Revenue	42.66	0.00
	MO - Withholding	Mo Dept of Revenue	35.00	0.00
	Retirement PEBSCO - Employer	University of Missouri	-10.00	0.00

✦ Adjust the Liability Discrepancy
- o Edit the Employee's paycheck transaction where the original employer retirement liability amount exists. (Employees, Edit/Void Paychecks, Change Date Range, Select employee's paycheck, Edit, Paycheck Detail)
- o Check **Unlock Net Pay**
- o Under Company summary, change the employer's liability amount to $60.
- o Save paycheck screens. This will increase the liability by $10.00 and offset the negative $10.00 balance to zero.

Adjusting a Payroll Liability Amount in 941 Form

Occasionally, you may have a few cents or few dollars difference in an overpaid or underpaid employee or employer tax.   In most cases, you can specify the Social Security or Medicare difference on line 9 of the 941 Form. QuickBooks may add this amount as an outstanding payroll liability in the Pay Payroll Liability screen.

Consult with your regional QuickBooks trainer or Administrator for assistance with special payroll liability adjustment not identified above.

Scenario 4 – Employee's Social Security Tax was underpaid.

Need to increase employee's social security tax in next paycheck.   Next Paycheck occurs in the following payroll quarter!

Example of Paycheck with incorrect Social Security tax amounts – Employer and employee.
Tax amount should have been $71.61 for employee and employer. Social Security tax was calculated at 4.2% instead of 6.2%. (1155 x 4.2) instead of 1155 x 6.2). Difference of $23.10 for both employee and employer.

Since paycheck was cashed, the employee's social security tax cannot be adjusted.   Objective: to report both the unpaid employee's and employer's social security tax as the employer's social security tax.   Employee will reimburse employer on next paycheck (next quarter).

Other Payroll Items

ITEM NAME	RATE	QUANTITY
MCHCP Medical B...		330.07

Employee Summary (adjusted)   How are

ITEM NAME	AMOUNT	YTD
SALARY - HOURLY	1,155.00	
Federal Withholding	-44.00	
Soc.Sec. Withholding - E...	-48.51	
Medicare Withholding - E...	-16.75	
MO - Withholding	-12.00	

Company Summary (adjusted)   How are these items calculated?

ITEM NAME	AMOUNT	YTD
MCHCP Medical Benefits-...	340.07	680.14
Soc. Sec. - Employer	48.51	161.04
Medicare - Employer	16.75	43.07

Check Amount	1,033.74

Adjustment: Employer pays both $23.10 twice = $46.20 less .02 = $46.18.   Add $46.18 to Social Security-Employer. Total amount = $94.69.

Other Payroll Items

ITEM NAME	RATE	QUANTITY
MCHCP Medical B...		330.07

Employee Summary (adjusted)   How are these items calculated?

ITEM NAME	AMOUNT	YTD
SALARY - HOURLY	1,155.00	2,970.00
Federal Withholding	-44.00	-156.00
Soc.Sec. Withholding - E...	-48.51	-161.04
Medicare Withholding - E...	-16.75	-43.07
MO - Withholding	-12.00	-59.00

Company Summary (adjusted)   How are these items calculated?

ITEM NAME	AMOUNT	YTD
MCHCP Medical Benefits-...	340.07	680.14
Soc. Sec. - Employer	94.69	207.22
Medicare - Employer	16.75	43.07

Check Amount	1,033.74

Original Payroll Liability Check created but not yet sent.

		NO.	2838
		DATE	04/14/2014
PAY TO THE ORDER OF	Internal Revenue Service	$	1,238.60

One thousand two hundred thirty-eight and 60/100************************* DOLLARS

ADDRESS

Internal Revenue Service

PERIOD 01/01/2014 - 03/31/2014

MEMO 43-6013340

Expenses	$0.00	Payroll Liabilities	$1,238.60		
PAYROLL ITEM	AMOUNT		MEMO		CLASS
Medicare Withholding - E...	90.78				
Soc. Sec. - Employer	365.02				
Soc.Sec. Withholding - E...	365.02				

Void the Liability check transaction. The liability amounts will be added back to the liability screen.

Re-create the liability check transaction with the adjusted liability amounts.   Employer amount changed from $365.02 to $411.20.

Revised Payroll Liability Check

		NO.	2838
		DATE	04/14/2014
PAY TO THE ORDER OF	Internal Revenue Service	$	1,284.78

Note: the liability tax amount include taxes from all employees.

One thousand two hundred eighty-four and 78/100*************************** DOLLARS

ADDRESS

Internal Revenue Service

PERIOD 01/01/2014 - 03/31/2014

MEMO 43-6013340

Expenses	$0.00	Payroll Liabilities	$1,284.78		
PAYROLL ITEM	AMOUNT		MEMO		CLASS
Medicare Withholding - E...	90.78				
Soc. Sec. - Employer	411.20				
Soc.Sec. Withholding - E...	365.02				

The Social Security Tax for the 1st Quarter should be correct on the 941 form.

Adjust Employee's Paycheck 2nd Quarter to withhold an additional $23.10 that employee owes to the Extension Council.   Council should not pay the $23.10 to IRS because this amount $23.10, the employee's Social Security amount, was paid in the first quarter.

Only the Employee's social security tax amount was increased $23.10 (from $139.50 to $162.60)

Earnings

☐ Use Direct Deposit

ITEM NAME	RATE	HOURS	CUSTOMER:JOB	CLASS	
SALARY - HOURLY	12.00	187:30		1000-County Appropriations	SICK A
					VACATIC
					SICK A
					VAC. A
					☐ Do r
TOTALS		2,250.00	187:30 hrs		

Other Payroll Items

ITEM NAME	RATE	QUANTITY
MCHCP Medical B...		340.07
▼		

Employee Summary (adjusted)   How ar

ITEM NAME	AMOUNT	YTI
SALARY - HOURLY	2,250.00	
Federal Withholding	-158.00	
Soc.Sec. Withholding - E...	-162.60	
Medicare Withholding - E...	-32.62	
MO - Withholding	-68.00	

Company Summary (adjusted)   How are these items calculated?

ITEM NAME	AMOUNT	YTD
MCHCP Medical Benefits-...	340.07	1,700.35
Soc. Sec. - Employer	139.50	642.46
Medicare - Employer	32.62	144.86
Division of Employment S...	0.00	11.70

Check Amount:		1,828.78

Employee owes the $23.10 Social Security tax amount to the Council, not the IRS. Create a Payroll Liability Adjustment to reduce the Social Security tax owed to IRS.   This also will reduce the employer's social security tax since the employer paid the employee's share of the tax in the first quarter.

Select **Employees** from menu bar**, Payroll Taxes and Liabilities, Adjust Payroll Liabilities**.

Do not enter a Class code in the payroll liability adjustment screen.   Entering a class code in this screen results in the class code being applied to both the expense account and the liability account. (Create a Journal entry to apply the class code to the expense account.)

Click OK.

In the **Account for Employee liabilities screen**, select **2820** Social Security Expense account. This will decrease the Council's year-to-date Social Security tax expense.   Click OK to save transaction.

Prev Adjustment

Date 05/15/2014   Effective Date 05/15/2014

Adjustment is for:
○ Company   ● Employee   Earney, Presha L.   ▼   Class   ▼

OK

Taxes and Liabilities

ITEM NAME	AMOUNT	WAGE BASE	INCOME SUBJECT TO TAX	MEMO
Soc.Sec. Withholding - ...	-23.10	0.00	0.00	SS was underpaid (Earney) check #2811

Cancel

Accounts Affected...

Account for employee liabilities   ✕

Expense, Asset or Liability Account for employee liabilities

OK

2800 · Payroll Expenses:282 ▼

Cancel

Review the Social Security Liability Register to see the adjustment amounts, 411.20 and 23.10, as illustrated in following image.

04/14/2014	2838	Internal Revenue Service				411.20	838.64
		LIAB CHK	0050 · Checking [split]				
04/14/2014	2838	Internal Revenue Service				365.02	473.62
		LIAB CHK	0050 · Checking [split]				
05/15/2014		Earney, Presha L.		✔		23.10	450.52
		LIAB ADJ	2800 · Payroll Expenses:2820 · Social Security SS was underpaid (Earney) check #2811				
5/15/2014 📅	Ref	Payee	▼	Increase	Decrease		
		Account	▼	Memo			

Create General Journal Entry to apply Class Code

Select **Company** from menu bar, Select **Make General Journal Entry.**

A class code should be applied to the credit type 2820 Employer Social Security Expense account.

Select Save and close.

DATE	05/15/2014 📅		ENTRY NO.	13			
ACCOUNT		DEBIT	CREDIT	MEMO	N...	B...	CLASS
2800 · Payroll Expenses:2820 ·... ▼		23.10			▼		
2800 · Payroll Expenses:2820 · S...			23.10	Apply class code to employer's SS acct. Reduce tax			1000-County Appropriations

Review your Unclassified Transactions Report.