**CHAPTER 8**

**Review & Assessment**

Key Concepts

1. b 6. h

2. j 7. c

3. g 8. i

4. e 9. f

5. d 10. a

Procedure Check

1. To activate the payroll feature in an existing company file, take the following steps:

1. Click Edit and then click Preferences.

2. Along the left frame of the Preferences window, click the Payroll & Employees icon.

3. Click the Company Preferences tab.

4. Click the Full payroll button.

5. Accept the defaults.

6. Click OK.

When the payroll feature is activated, QuickBooks automatically creates two default general ledger accounts: Payroll Liabilities and Payroll Expenses. Typically, a company would then customize the default general ledger accounts for their company.

2. You cannot access the Payroll Item List until you indicate how the payroll will be processed. You can process payroll by using one of QuickBooks payroll services, which requires a monthly fee, or you can opt to enter payroll information manually.

To set up payroll for manual processing using the Help menu:

1. Click Help and then click QuickBooks Help. The Have a Question? window appears.

2. In the Have a Question? window, in the Search box, key **payroll** and press Enter or click on the search icon. Some payroll topics are displayed.

3. In the Answers in Help section, click Show more answers. Additional payroll topics are displayed.

4. Scroll down the list of payroll topics and click Process payroll manually (without a subscription to QuickBooks payroll). The Process payroll manually (without a subscription to QuickBooks payroll) information now appears in the Have a Question? window.

5. In the Have a Question? window under the If you prefer to process your payroll manually section, click *manual payroll calculations*. You are moved to the Are you sure you want to set your company file to use manual computations? information.

6. Click *Set up my company file to use manual calculations* link.

7. Close the Have a Question? window and then click OK at the QuickBooks Information message.

 You will now be able to access the Payroll Item List.

3. The payroll items automatically included are those that affect all companies. They include Social Security, Medicare, Federal Unemployment, Federal Withholding, and Advance Earned Income Credit. You can customize them for your company by indicating the government agency to which the payments are directed, and the liability accounts and expense accounts that your company uses to record each of these payroll items.

4. QuickBooks provides for seven types of payroll items: Wage, Addition, Deduction, Company Contribution, Federal Tax, State Tax, and Other Tax. For each of these types, several subtypes are listed in parenthesis next to each of the payroll item types.

Two common types of payroll items a company would create are Wage and State Tax. For the Wage type, common subtypes are annual salary and hourly wages. For the State Tax, common subtypes are state withholding, state disability insurance (SDI), and state unemployment insurance (SUI).

5. Payroll items that have two liabilities accounts are Social Security Company, Social Security Employee, Medicare Company, and Medicare Employee. The two liability accounts are identified on one page, and the expense account is identified on a separate page.

 Payroll items that have one liability account and one expense account are FUTA and SUI. Both the liability account and expense account are identified on the same page.

6. To use the payroll feature in QuickBooks, the feature must first be activated. To do this, choose Preferences from the Edit menu, select the Payroll & Employees icon, and choose Full payroll on the Company Preferences tab. Once activated, QuickBooks automatically creates two default general ledger accounts: Payroll Liabilities and Payroll Expenses.

There are many different payroll liabilities accounts and expense accounts that companies use. It is usually desirable to use the payroll liabilities account and expense account created by QuickBooks as parent accounts, and then create additional payroll liabilities and expense accounts as subaccounts.

Typical liability accounts a company might create include: Social Security/ Medicare Payable, FIT Payable, SIT Payable, FUTA Payable, and SUI Payable. Typical expense accounts include: Salaries and Wages Expense, Social Security/Medicare Expense, FUTA Expense, and SUI Expense.

In order to access the Payroll Item List created by QuickBooks, a company must indicate how the payroll would be processed. A company can use one of several payroll services QuickBooks offers, all requiring monthly fees, or a company can manually enter payroll information. In business it is recommended to use a payroll service, but for practice, manual processing is used. To choose the manual option, use the QuickBooks Help menu which opens the Have a Question? window. In the Search box, key in payroll. At the list of payroll topics, click Show more answers. Scroll through the payroll topics and choose Process payroll manually (without a subscription to QuickBooks payroll). This information will now appear in the Have a Question? window. In this window, click manual payroll calculations. You are moved to the Are you sure you want to set your company file to use manual calculations information. Click Set my company file to use manual calculations and then close the Have a Question window, and click OK at the message. You will now have access to the Payroll Item List.

QuickBooks creates several items on the Payroll Item List that are used by almost all companies. These items are Social Security, Medicare, Federal Unemployment, Federal Withholding, and Advance Earned Income Credit. A company would customize these items to indicate the government agency, liability accounts, and expense accounts for their company. The company would then create additional payroll items appropriate for their company. Two common types a company would create are Wage and State Tax. For the Wage type, common subtypes are annual salary and hourly wages. For the State Tax, common subtypes are state withholding, state disability insurance (SDI), and state unemployment insurance (SUI).

After completing the payroll setup, the company is then prepared to move on to the next phase: payroll processing.