

The Basics of Payroll Accounting for Your Small Business



Payroll accounting for small business is essential. The basics of payroll accounting and its effective implementation is vital to the survival of companies; both big and small.

Whether you are running a small-scale business or a large-scale enterprise, **payroll accounting** is of vital importance. Once you move ahead with hiring your employees, it becomes imperative that you know payroll accounting as well as its management correctly. However, for most of the business organizations out there especially the beginners, it becomes a challenging task to achieve payroll accounting as well as its management effectively. In this post, we will help you unravel how to do **payroll accounting for small business** seamlessly.

The Basics of Payroll Accounting for small business

Payroll accounting is referred to as the process of recording and maintaining employee compensation. It includes the task of keeping track of money that has been withheld from the paychecks of employees and calculating the share of benefits as well as taxes of both employers & employees. Some of the common forms of employee compensation include-

- Salaries
- Wages
- Commissions

- Overtime pay
- Hourly employees
- Bonuses

In addition to the compensations, payroll accounting is also concerned with calculating the withheld taxes, including:

- Medicare taxes
- Federal withholding taxes
- Social security taxes
- State withholding taxes (in case applicable)

Some of the additional elements of payroll accounting include retirement accounts, health insurance, wage garnishments, and so much more. While all of these might appear similar, these elements are not accounted in the same manner. While some of these are considered as liabilities, others are regarded as expenses for your business.

Payroll Accounting Tips for Small Businesses

Ideally, when it comes to **payroll accounting for small businesses**, a typical payroll system is known to comprise of three major elements paying the workforce, preparing as well as paying taxes related to payroll and filing the respective tax reforms.

Paying the Workforce

When you wish to achieve ultimate employee satisfaction as well as improved productivity, paying the workforce the right amount at the right time is an ideal condition. Whether you are paying the workforce on a weekly or bi-weekly basis, monthly, or quarterly basis, the payment made to the workforce concerning payroll accounting is vital. It tends to include everything right from keeping track of the employee's work hours to processing withholding taxes, delivering paychecks, making direct payments to the bank accounts of the employees, and so more.

Preparing And Paying Taxes Related to Payroll



Once you have deducted the withholding taxes from the salaries of the concerned staff in your small-scale business, it becomes vital that you should submit the respective taxes to the right authorities “ including the Federal & State Governments. Based on the State or region in which you set up your business venture, some of the withholding taxes that might apply:

- Self-employment tax
- Federal tax
- Additional Medicare tax
- Local & State tax
- Medicare & Social Security Taxes
- SUTA (State Unemployment Tax)
- FUTA (Federal Unemployment Tax)
- Worker compensation insurance

Usually, the three crucial tax deductions concerning payroll accounting include Social Security Tax, Federal Income Tax, and Medicare Tax.

Filing the Respective Tax Forms

It is a stated fact that filing the respective tax forms can turn out to be a complex and challenging task “ especially when you are starting. However, as a business owner, you are entitled by law to file the respective tax forms appropriately and on time. Concerning the size of your business and its overall flexibility, you might need to file taxes on a quarterly, monthly, or annual basis. As an employer, some of the common tax forms that you might be required to file -

- Form 940 Annual Federal Unemployment Tax Return of the Employers
- Form 944 “ Annual Federal Tax Return of the Employers
- Form 941 “ Quarterly Federal Tax Return of the Employers
- Provision of Form W-2s to the employees along with Form 1099s to the respective contractors
- Form 945 “Annual Return of Withheld Federal Income tax

Getting an understanding of the Common Payroll Methods

When you wish to run a successful business, it is imperative for you to ensure accurate as well as timely processing of the payroll accounting for your business. As IRS comes with a set of specific guidelines as well as regulations with respect to withholding & filing taxes, it becomes imperative for you to invest in the best possible payroll mechanism out there that not only suits your specific business requirements but also complies with the given IRS guidelines. In addition to this, you are also required to ensure ultimate employee satisfaction as employee performance as well as productivity can play a major role in ensuring prompt & accurate payments.

- **Manual or DIY Method:**
Most of the small-scale business enterprises out there “especially those having a handful of employees, tend to prefer the manual or DIY payroll accounting method. For doing this effectively, it is vital to maintain a proper spreadsheet that helps in tracking hours of employment by each employee along with calculating taxes, processing paychecks, and so more. Moreover, you are also required to calculate as well as file [payroll taxes](#) manually.
- **Hiring an Accountant:**
A professional accountant can serve immensely beneficial for your business if you are looking forward to implementing in-house payroll accounting and management. You can consider hiring a part-time or a full-

time accountant “based on the size and requirements of your business organization.

- **Using a Payroll Software:**

The main aim of a reliable payroll software solution is to simplify as well as automate the procedure of paying the concerned workforce. The primary role of a payroll software solution includes computing, deducting employee compensations, preparation of the payslips, computing as well as filing employee taxes, complying with the respective regulatory requirements, and so more.

Payroll is one of the critical components of any business enterprise out there. Therefore, it becomes essential for you to set up a well-defined **payroll accounting** for small business as well as management procedure to ensure maximum profitability. A good [payroll system](#) not only helps in saving time, efforts, and money, but it will also help your business to grow exponentially.