Reconciling Liabilities

What is a liability?

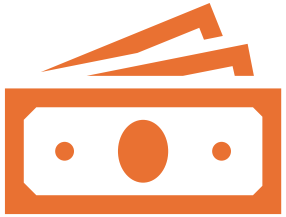
Liability

- An amount that is owed by the organization
- Lives in a liability account 2xxxx on the Statement of Financial Position
- Can be an expense to the organization or can be a deduction from employees

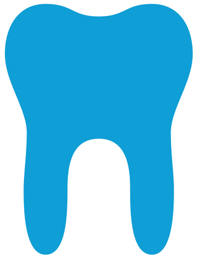
Expense

- Expenditure needed to run the organization
- Shown on the Statement of Activities and normally has a budget and variance

Why have Liabilities?



The main purpose of liability accounts is to make sure that what is due to be paid is actually paid. If this does not happen, a correction needs to be made



Examples are: Loans, Federal taxes, State taxes, Health insurance, Dental insurance, Vision insurance, H.S.A., F.S.A.

Reconciling liabilities is a check to ensure that bills are being paid and employees are being compensated as agreed

Types of Payroll Liabilities

Managed and Reconciled by MM

- Federal taxes
- State taxes
- Local taxes

Managed and Reconciled by the Organization

- Benefits
  - Health
  - Dental
  - Vision
  - H.S.A.
  - F.S.A.
  - Any other benefit

Let's look at a simple example to start:

Employee/Vendor	Wage Expense	Taxes Payable	Cash Disbursed
John Gray	$ 1,200	$ 200	$ 1,000
Suzie Que	2,000	400	1,600
IRS		(600)	600
Total	$ 3,200	-	$ 3,200

Let's look at a benefit that is not an expense to the organization:

Employee/Vendor	Wage Expense	Taxes Payable	Dental Payable	Cash Disbursed
John Gray	$ 1,200	$ 200	$ 30	$ 970
Suzie Que	2,000	400	70	1,530
IRS	-	(600)	-	600
Dental Plans R Us			(100)	100
Total	$ 3,200	-	-	$ 3,200

Benefit that is partially paid by employer and employee:

Employee/Vendor	Wage Expense	Employer's Share of Benefits Expense	Taxes Payable	Health Payable Employees contribute $125/ Organization pays remainder	Cash Disbursed
	A	B	C	$125 per employee + B	A – C - $125 (EE Health Share)
John Gray	$ 1,200	$ 300	$ 200	$ 425	$ 875
Suzie Que	2,000	400	400	525	1,475
IRS	-	-	(600)	-	600
Health Plans R Us				(950)	950
Total	$ 3,200	700	-	-	$ 3,900

Why the liability needs to be reconciled:

Employee	Wage Expense	Federal Taxes Payable	Dental Payable	Cash Disbursed
John Gray	$ 1,200	$ 200	$ 60	$ 940
Suzie Que	2,000	400	140	1,460
IRS	-	(600)	-	600
Dental Plans R Us			(150)	150
Total	$ 3,200	-	$ 50	$ 3,150

- When these amounts do not balance, it is an indicator that someone is owed money.

Why doesn’t MM reconcile benefit liabilities as well as tax liabilities?

- Organizations are responsible for ensuring that their benefit plans are properly managed
- Organizations have the authority to give and change benefits.
- Benefit election documents are maintained by the organization
- Miller Management accountants will help you reconcile the benefit liabilities and are happy to work WITH you.

What is needed to reconcile payroll liabilities?

- Understand your plans
- Understand when amounts are due
- Understand when changes are effective
- Understand of pay cycles

Reports used to reconcile: General ledger

Date	Reference	Description	Beginning Balance	Debit	Credit	Period End Balance
2040 Insurance Withholding Payable			(111.51)			
01/01/26	EFT	Aflac Inc.		110.68		
01/15/26	Payroll	Payroll Journal Entry			110.31	
01/16/26	EFT	GuideStone Financial Resources, SBC		109.94		
01/30/26	Payroll	Payroll Journal Entry			110.31	
02/13/26	EFT	Aflac Inc.		110.68		
02/13/26	Payroll	Payroll Journal Entry			110.31	
02/25/26	EFT	GuideStone Financial Resources, SBC		109.94		
02/27/26	Payroll	Payroll Journal Entry			110.31	
03/13/26	EFT	Aflac Inc.		110.68		
03/13/26	Payroll	Payroll Journal Entry			110.31	
03/31/26	Payroll	Payroll Journal Entry			110.31	
04/03/26	EFT	GuideStone Financial Resources, SBC		109.94		
04/15/26	EFT	Aflac Inc.		110.68		
04/15/26	Payroll	Payroll Journal Entry			110.31	
04/25/26	EFT	GuideStone Financial Resources, SBC		109.94		
04/30/26	Payroll	Payroll Journal Entry			110.31	
		Totals for 2040		882.48	882.48	(111.51)
		Report Total				(111.51)

Reports used to reconcile: Deduction Register

Employee ID	Employee Name	Amount
Deductions		
Dental		
GRAJOH	John Gray	$ 30.00
QUESUZ	Suzie Que	$ 70.00
	Total	$ 140.00

Reports used: Vendor Bill/Payment

Dental Plans R Us

For the month of April

Due by March 25

John Gray	$	60.00	Employee Only
Suzie Que		240.00	Family Coverage
Total Due	$	300.00	

Reconciling payroll to the bill

Deduction Register

- John Gray $30.00 per pay period
  - 24 pay periods
  - $60.00 per month

- Suzie Que $70.00 per pay period
  - 24 pay periods
  - $140.00 per month

Bill

- John Gray $60.00 per month
  - Matches

- Suzie Que $240.00 per month
  - Does not match
  - Is the bill wrong or the deduction?

Most common challenges

- Forgetting to change deduction amounts
  - Premium changes
  - Adding/removing employees
- Communicating withholding amounts as a fixed dollar amount when they should be a percentage (i.e. Retirement)
- Assuming the vendor bill is correct

Questions?