Trap to Avoid: Failing to Carry Forward Adjustments in Pay

As the tax year comes to a close, it's time to start thinking about balancing your 2015 payroll. As always, the key to the year-end process will be to ensure that remittance amounts match up. So you want to be on the lookout (or, if you outsource the year-end process, ensure your vendor is on the lookout)

The Challenge

Remember that the name of the game is to verify that your payroll register year-to-dates (YTD), which record the dollar amounts processed in payroll for the year, match the CRA's records of the total payments it has received from you during the year. The register YTD must also line up with the remittances and earnings shown on your company's general ledger (GL).

The Trap

The trap can occur in the frequent situation where the employer has to make adjustments to an employee's pay after the employer has already made a payment and corresponding remittance to the CRA. For example, if you discover that you overpaid an employee, you may void the employee's paycheque and issue a new one. You must record these changes in your payroll register and GL. One mistake payroll managers make is failing to carry forward such adjustments in pay to both source deduction remittances and the GL. Consequently, at year's end, the CRA statements and GL don't match the amounts shown on the payroll register.

Example

Company A pays an employee $1,000 a week. On Jan. 15, the Company sends the employee a paycheque without realizing that she took an unpaid vacation day during the week. After making the CRA remittance and posting to the GL, Company A discovers the error. So it voids the cheque and issues a new one for the correct amount. The voided and reissued cheques are noted in the payroll register. But the remittance to CRA isn't corrected and the GL isn't updated. Consequently, the register figure is higher than the CRA and GL figures at year's end.

The Solution

When you adjust an employee's payment after a paycheque has been reissued, be sure to take the following four steps:

- Step 1: Make sure the corrected gross and net amounts are reflected in the payroll system YTD;
- Step 2: Reprint the payroll register for the period so that you have an updated document reflecting the change;
- Step 3: Document the change on your GL; and
- Step 4: Adjust your remittances to CRA accordingly.