

PROCEDURES FOR HANDLING UNCOMPENSATED OVERTIME AND POSTING OF PAYROLL

Exempt, salaried employees are required to work the minimum number of hours each semi-monthly pay period. All hours worked must be posted on timesheets whether billable or not. Exempt employees do not receive overtime pay for extra hours worked.

All hours contained on timesheets are posted to the project cost management system at the employee's raw hourly salary cost (annual salary divided by 2,080 annual hours). At the end of each month a payroll journal entry is computed by taking ALL direct labor hours posted on timesheets and multiplying that by raw hourly salary – that is the direct labor posting for the general ledger. Then the indirect labor hours posted on timesheets (administration, proposals, business development, vacation, sick leave and holiday) are multiplied by raw hourly salary – that is the indirect labor posting for the general ledger.

Full posting of these gross hours and dollars to direct and indirect labor always results in a negative variance between the cost of direct hours plus indirect hours vs. the gross payroll being debited from the checking account (because employees work extra hours); therefore, that entire difference is posted to the Payroll Variance/Uncompensated Overtime account (a separate general ledger category under indirect labor).

For overhead rate calculation purposes, Direct Labor is not adjusted down and remains unaffected by the negative figure contained in the Payroll Variance/Uncompensated Overtime account.

The following is an example of the calculation of the payroll variance/uncompensated overtime for the general ledger payroll journal entry:

Employee A's Timesheets for May			
Projects	Timesheet Hours	Raw Hourly Cost *	Monthly Salary
Project ABC	84 hours	\$2,019.36	
Project XYZ	76 hours	1,827.04	
Indirect Labor – Administration	12 hours	288.48	
Indirect Labor – Holiday	8 hours	192.32	
Total	180 hours	\$4,327.20	\$4,166.67

Note: Employee A's raw salary is \$50,000/year; \$4,166.67/month; \$24.04/hour.

Payroll Journal Entry for General Ledger	
Checking Account Withdrawal	(\$4,166.67)
Direct Labor	3,846.40
Indirect Labor – Administration	288.48
Indirect Labor – Holiday	192.32
Payroll Variance/Uncompensated Overtime	(160.53)