

IMPROVING LABOR AND PAYROLL ACCOUNTING IN BUSINESS ENTITIES BASED ON INTERNATIONAL STANDARDS

Accounting, Audit and Digital Economy

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Abstract. This article examines the theoretical, legal and practical aspects of labor and payroll accounting in business entities through an international perspective. The study focuses on the economic nature of remuneration, the transparency of settlements with employees, internal control, digitalization, payroll risk management and the protection of payroll-related information. The article develops practical recommendations for enterprises on the basis of IAS 19 Employee Benefits, International Labour Organization principles, the COSO internal control framework, information security requirements and national regulatory approaches. The findings demonstrate that an integrated HR-payroll system, electronic time sheets, audit trails, role-based access, employee self-service and analytical dashboards can improve accounting accuracy, strengthen managerial control and reduce disputes with employees.

Keywords: labor accounting, payroll, remuneration, IAS 19, internal control, audit trail, digitalization, electronic time sheet, employee benefits, payroll risk management.

JEL classification: M41, M42, J31, O33.

1. Introduction

In a market economy, the rational use of labor resources, fair assessment of employee performance and accurate payroll calculations are among the essential conditions for the sustainable development of a business entity. Payroll is the principal source of income for employees and, at the same time, one of the most significant cost elements for an enterprise. It directly affects production cost, service cost, profit margins, employee motivation and the quality of management decisions. Therefore, labor and payroll accounting should not be treated as a narrow technical function of the accounting department only; it should be viewed as an integral component of financial management, human resource policy and corporate governance.

In practice, many enterprises still perform payroll calculations by using manually completed attendance sheets, separate Excel files or software products that are not fully integrated with human resource and financial systems. Such an approach increases the risk of broken formulas, duplicated data entry, late submission of documents, absence of approval evidence and disputes with employees regarding payroll amounts. International practice, on the contrary, is increasingly based on integrated HRM-ERP systems, clear audit trails, segregation of duties, electronic document flow, role-based access rights and continuous internal control over payroll operations.

The relevance of the topic is also explained by the fact that payroll information includes both personal and financial data. Any inaccuracy in employee records, attendance data, tax deductions, bonuses or bank details may lead not only to accounting errors but also to reputational losses and legal consequences. For this reason, modern payroll accounting requires a combination of accounting standards, labor law requirements, internal control procedures and digital security measures.

The purpose of this article is to develop directions for improving labor and payroll accounting in business entities in accordance with international standards and best practices. To achieve this purpose, the study analyzes the economic content of labor and wages, the interpretation of employee benefits in international accounting standards, requirements of internal control, digitalization opportunities and practical payroll risks. The object of the research is the organization of labor and payroll accounting in enterprises, while the subject is the set of economic, legal and managerial relations arising in the process of settlements with employees.

2. Literature Review and Theoretical Framework

In labor economics, wages are interpreted in two interconnected ways. On the one hand, they are monetary compensation paid to an employee for the time, skills, qualifications and results contributed to the enterprise. On the other hand, wages are considered the market price of labor power under the influence of demand and supply, productivity, institutional restrictions and enterprise strategy. Classical economic approaches linked wages mainly with the reproduction cost of labor power, while modern theories emphasize the motivational, social and strategic functions of remuneration.

From the standpoint of enterprise management, payroll is not only an expense item. A fair and transparent remuneration system helps attract qualified personnel, retain valuable employees, increase labor productivity and strengthen employee loyalty. Conversely, unclear payroll rules, unexplained deductions, delayed payments and subjective bonuses may create dissatisfaction, reduce discipline and increase staff turnover. Therefore, payroll accounting should ensure not only correct figures but also trust between the employer and employees.

The International Labour Organization Convention No. 95 on the Protection of Wages defines wages broadly, regardless of the name or method of calculation, as remuneration payable to an employee for work performed or to be performed. This approach establishes an important principle for payroll accounting: payments due to employees must be made on time, transparently and on a lawful basis. In this sense, payroll transparency is an important practical mechanism for protecting employee rights.

From the accounting perspective, IAS 19 Employee Benefits regulates the recognition, measurement and disclosure of all forms of employee benefits. According to the standard, when an employee has rendered service to an entity, the entity recognizes the related expense and, if payment will be made in the future, the corresponding liability. Short-term employee benefits such as salaries, wages, bonuses, paid annual leave and social contributions are usually recognized in the period in which the employee renders the related service. This principle is especially important for the timely and accurate presentation of payroll liabilities in financial statements.

The COSO Internal Control - Integrated Framework can also be applied to payroll processes. Its components, namely control environment, risk assessment, control activities, information and communication, and monitoring, require clear responsibility, segregation of duties, approval procedures, reliable documentation, secure data processing and regular audit. A situation in which one person is able to hire an employee, approve time sheets, calculate wages and prepare bank payments creates a significant weakness in internal control. Therefore, the separation of duties is one of the basic principles of a reliable payroll system.

International best practice also pays attention to the information security aspect of payroll accounting. Payroll databases contain personal identification data, bank details, tax information, salary amounts and performance-related indicators. Such information must be protected through

strong passwords, two-factor authentication, encryption, periodic backups, user activity logs and limited access rights. If security measures are weak, payroll automation may create new risks instead of reducing existing ones.

3. Research Methodology

The research uses methods of analysis, comparison, generalization, regulatory and legal analysis, and a systematic approach. First, the economic nature of labor and payroll accounting, national legal requirements and international approaches to employee benefits were examined. Then, practical problems observed in enterprises were systematized, including errors in attendance records, late submission of personnel documents, insufficient justification for additional payments, weak internal control and a low level of automation.

The methodological structure of the article consists of three stages. At the first stage, the economic and legal foundations of labor remuneration were analyzed. At the second stage, national payroll practice was compared with international standards and best practices. At the third stage, a practical model for improving the payroll process was developed. The model includes an electronic time sheet, a unified employee card, automated calculation algorithms, audit trails, an internal control checklist, a payroll risk matrix and analytical dashboards for management.

The study is based on the principle that payroll accounting should be assessed not only by the correctness of the final amount paid to the employee. It should also be evaluated by the quality of the source documents, the reliability of approval procedures, the traceability of changes, the level of integration between HR and accounting data, the availability of employee explanations and the ability of management to use payroll indicators for decision-making.

4. Results and Discussion

The analysis shows that improvement of labor and payroll accounting should begin with the standardization of internal processes. Every enterprise should have a clear and practical internal regulation on remuneration. This document must define tariff rates by position, time-based and piece-rate payment rules, criteria for bonuses, allowances, deductions, advance payments, vacation pay, sick leave, business trips, overtime and the procedure for issuing payroll statements. Without a clear regulation, similar situations may be interpreted differently, which creates a sense of unfairness among employees.

The second major direction is digitalization. A modern payroll system should be integrated with the HR database, staff schedule, electronic time sheet, payroll module, tax calculation and bank payment register. If the employee's personal data, position, tariff rate, work schedule, employment contract number and bank details are stored in a unified employee card, data duplication is reduced. Predefined calculation algorithms decrease the probability of human error and make payroll results more predictable and verifiable.

The electronic time sheet is one of the most sensitive components of payroll accounting. If an employee's arrival and departure time, lateness, vacation, sick leave, business trip or remote work are not recorded correctly, the payroll amount will also be incorrect. Enterprises may use electronic turnstiles, biometric identification, QR codes or mobile geolocation systems. However, technology should not be introduced as a tool for restricting employee rights. It should be used as a mechanism for recording working time fairly, reducing disputes and ensuring discipline.

Even where attendance is recorded automatically, the final time sheet should be reviewed and approved by the responsible manager. In some situations, an employee may be outside the office on an official assignment, may work remotely with managerial permission or may fail to register due to technical reasons. Thus, automation does not eliminate human control; rather, it makes control more transparent. Every correction in the system should show who made it, when it was made and on what basis. This creates an audit trail and strengthens accountability.

The third direction is strengthening internal control and audit. In a well-organized payroll process, the HR department handles employment and personnel documents, department managers approve working time, the accounting department performs calculations, and management approves the payroll register and bank payment order. Each month, the payroll register should be compared with the staff schedule and the current employee list, time sheets should be approved by managers, supporting documents for bonuses and allowances should be checked, and the legality of deductions should be verified.

Internal audit of payroll may be conducted on both a scheduled and an unscheduled basis. Scheduled audit procedures usually include monthly, quarterly or annual review of the payroll fund, number of employees, average wage, bonuses, deductions and tax-related obligations. Unscheduled reviews may be initiated after employee complaints, unexpected cost growth, management instructions or detected discrepancies. The results of the audit should be formalized in a report indicating the error, its cause, financial effect, responsible person and corrective action.

The fourth direction is payroll risk management. The most common risks include incorrect time sheets, payment to employees who have already left the enterprise, unsupported bonuses, incorrect bank details, tax deduction errors, unauthorized access to the electronic database and absence of reliable backup copies. For each risk, the enterprise should define probability, financial impact, control measure and responsible person. For example, bank detail errors can be reduced by comparing the employee's application, bank document and payment register. The risk of data loss can be reduced through backup procedures and access restrictions.

The fifth direction is analytical management. Management should receive a concise monthly report on the payroll fund, average wage, overtime hours, share of bonuses, absenteeism, departmental costs and labor productivity. If the payroll fund increases while production or service volume does not increase proportionally, the profitability of the enterprise may decline. Therefore, the growth rate of payroll costs should be compared with the growth rate of labor productivity. This comparison helps determine whether remuneration policy supports or weakens enterprise efficiency.

Analytical reporting should not be limited to presenting numbers. It should also include explanations, conclusions and recommendations. For example, a statement that overtime hours increased by 18 percent becomes useful only when it is accompanied by the reason for the increase, its financial impact and measures to reduce unnecessary overtime. In this way, payroll accounting becomes a source of managerial information rather than a purely formal accounting procedure.

5. A Model for Improving the Payroll System

Area	Key measure	Control mechanism	Expected result
Standardization	Internal remuneration regulation and document flow	List of responsible persons and deadlines	Payroll processes become transparent

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	schedule		
Digitalization	Integration of HR, time sheet, payroll and bank registers	Audit trail and role-based access	Errors and duplicate data entry decrease
Internal control	Comparison of staff schedule, time sheet, payroll register and supporting documents	Control checklist and management approval	Unsupported payments are prevented
Analytical management	Monitoring of payroll fund, KPIs, productivity and overtime	Dashboard and monthly report	Payroll costs are managed on an evidence-based basis
Information security	2FA, encryption, backup and access restrictions	User activity log	Personal and financial data are protected

The proposed model is valuable because it treats payroll accounting not as a technical calculation only, but as a management system. In this model, employee rights, enterprise costs, financial discipline, information security and strategic management are interconnected. When employees can access their payroll statements through a personal account, see their vacation balance and receive timely answers about deductions, their trust in the enterprise increases. At the same time, management can make evidence-based decisions on staff planning, bonuses, overtime and productivity using near real-time analytical information.

The model should be introduced step by step. At the first stage, the current payroll process should be diagnosed: documents, software, attendance procedures and calculations are reviewed. At the second stage, internal regulations, document flow schedules and control checklists are developed. At the third stage, electronic time sheets and payroll software are introduced or improved. At the final stage, results are evaluated, employee feedback is collected and the system is adjusted. This gradual approach reduces resistance and allows the enterprise to adapt the model to its own operational conditions.

An important element of the model is the employee self-service portal. Through such a portal, employees may view payroll statements, vacation balances, approved bonuses, deductions and payment history. This increases transparency and reduces the number of repetitive questions to the accounting department. Moreover, employee requests and complaints can be registered electronically, which helps the enterprise resolve disputes in a documented and timely manner.

Another important element is the payroll dashboard. It should include indicators such as total payroll fund, average wage, overtime ratio, bonus share, absenteeism, payroll cost per unit of output, payroll growth rate and labor productivity growth rate. These indicators help management identify whether the remuneration system supports operational efficiency, employee motivation and financial stability.

6. Conclusion and Recommendations

In conclusion, labor and payroll accounting has a direct impact on financial discipline, employee interests and the quality of managerial decisions in business entities. A payroll system aligned with international standards should be based on transparency, timely recognition, documentary evidence, segregation of duties, audit trails and protection of employee data. IAS 19 requires the proper recognition and measurement of employee benefits, ILO approaches emphasize

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the protection of wages, and the COSO framework requires internal control to be organized as a systematic process.

The research results show that enterprises should improve payroll accounting in several practical directions. First, internal remuneration regulations and document flow schedules should be updated. Second, electronic time sheets, HR databases and payroll modules should be integrated into a single information system. Third, every change in payroll data should leave an audit trail. Fourth, bonuses and allowances should be linked to clear performance indicators. Fifth, a dashboard should be created for monitoring payroll fund and labor productivity. Sixth, employees should receive payroll statements regularly in electronic form. Seventh, access rights, two-factor authentication, encryption and backup procedures should be introduced to protect payroll data.

The step-by-step implementation of these measures will reduce payroll calculation errors, prevent disputes with employees, strengthen control over enterprise costs and stimulate labor productivity. Most importantly, payroll accounting will become not merely a mandatory accounting procedure, but a tool of fair management, institutional trust and sustainable development. In this context, the modernization of payroll accounting should be treated as an investment in both financial reliability and human capital management.

Future research may focus on the empirical assessment of payroll automation in enterprises of different sizes, the effect of electronic attendance systems on labor discipline, and the relationship between performance-based pay and employee productivity. Such studies would help further adapt international payroll practices to the institutional and technological conditions of national enterprises.

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