

Accounting Period End Dates – Advantages & Disadvantages

For accounting, dates are important to keep things straight but there are advantages and disadvantages when selecting between weekly, biweekly, semi-monthly and monthly periods.

Starting with the easiest part that everyone knows is that calendar months do not have equal number of days each month, they range from 28 to 31, but most are 30-31, which seems close enough to most people and is until you start calculating things like salary and revenue numbers.

For example, if your salary is \$120,000 per year it is easy to see that is \$10,000 per month and if you are paid monthly that is easy, and if you are paid semi-monthly that is easy too since then it is just divided by 2 = \$5,000 twice a month, but if you are paid bi-weekly it is not quite as easy.

Most often this first comes up when you consider periods for timesheets and payroll payments, but you can easily do the math to figure out how much salary is under any of these schedules:

- | | |
|---------------------------------------|------------------------------|
| - Monthly = 12 pay periods per year | \$10,000.00 x 12 = \$120,000 |
| - Semi-monthly = 24 periods per year | \$ 5,000.00 x 24 = \$120,000 |
| - Bi-weekly = 26 pay periods per year | \$ 4,615.38 x 26 = \$120,000 |
| - Weekly = 52 pay periods per year | \$ 2,307.69 x 52 = \$120,000 |

Most customer billing is done monthly as is most financial reporting so having monthly periods makes it easy to have same cut-off dates for timesheets, payroll, billing and reporting so each includes exactly one month of cost and revenue, as required for the GAAP matching principle.

The advantage to monthly is easy to see, but most want to pay more frequently, so then must choose one of the other three and most think weekly is too frequent, so the majority debate between semi-monthly and biweekly and most pick based on their previous related experience.

Semi-monthly advantage seems apparent when you see numbers look more even to compute. The downside to semi-monthly is that periods end on the 15th and EOM (end of month) which may be 28-31, and will be odd dates like Tue or Wed or could be any day of the week it falls on.

Semi-monthly disadvantage is that the number of days in a period range from 10-12 days and might be 80 to 88 hours per period, so this usually makes it more difficult for employees to all remember when timesheets are due and more difficult to compare one pay period to another.

Bi-weekly advantage is having period end timesheet due date on the same day every other week, usually Friday. This makes it easier for employees to remember timesheet due dates and makes costs comparable, since each period has an equal number of 80 hours for every period.

Bi-weekly disadvantage is that months are not an equal four weeks, which means period ends will not match month ends, so the four-weeks may end on the 20th-31st of the month and differs each month, so you either count that as month end or must accrue for those extra days.

Accounting Period End Dates – Advantages & Disadvantages

Selecting accounting periods that work best for your company must consider multiple factors. The simple answer to what is least work, is monthly, since then you do tasks once per month vs. 2-4 times per month, such as collecting timesheets and running payroll and posting the entries.

The downside to less frequent periods is a longer time period between reporting of accounting information that might be useful for managing costs on contracts or projects against budgets or customer limits on hours or funding depending on types of contracts in place with customers.

One factor that must be considered is state laws, since certain states require paydays to be on a more frequent basis than monthly, so you definitely should check state laws before a selection. 1099 consultants must only be paid per the terms of the consulting agreement you both signed.

Even when state laws allow monthly payroll, oftentimes employees prefer more frequent pay and this tends to be especially true with hourly employees or those with lower hourly pay rates. In all cases, monthly is the longest period that a payroll can be for W-2 employees in any state.

So to summarize the advantages and disadvantages of the options for period end dates to use:

<u>Period</u>	<u>Advantages</u>	<u>Disadvantages</u>
Monthly	Least frequent work Matches monthly billing Matches monthly reporting	Least frequent reporting available Not usually employees preference May be prohibited in some states
Semi-monthly	2 nd least frequent work Dates always 15 th & EOM Hours may vary by period	2 nd least frequent reports available Period end dates may fall mid-week More difficult to compare periods
Biweekly	2 nd most frequent work Period end on same days Easier to recall due dates Every period same # hours Easier to compare periods	2 nd most frequent reports available 24 four week & 2 six week periods Month end creeps up to 20 th or so Must accrue to match calendar end Accruals will require early estimates
Weekly	Most frequent reporting Best for managing budgets	Most frequent work will be required May be overkill for some companies