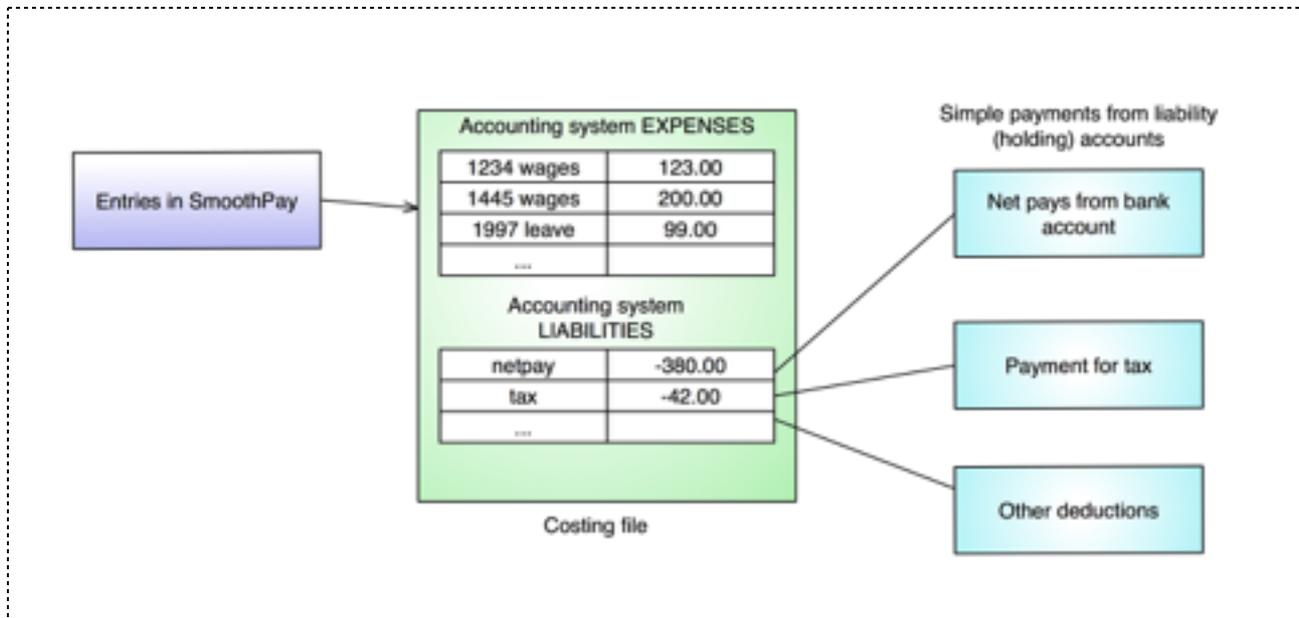# Basic Payroll Accounting

This guide is intended for staff who are unfamiliar with payroll and/or accounting processes and those who wish to understand how these processes can be simplified.

This step-by-step guide shows you the basics of Payroll Accounting, including:
- *setting up your Accounting Codes,*
- *using them in Pay Input to allocate wage costs, and*
- *transferring the wage costs to your accounting system*
- *GST processing (for registered employees and independent contractors)*

The illustrations and examples use *SmoothPay/Gold Payroll*, and *MoneyWorks* accounting products in an *Australian* payroll and accounting environment, however the concepts apply equally to most other payroll and accounting systems, and countries.

Apart from mistakes or localised usage and abbreviations, *UK English* is used throughout our documentation.

GST is used to refer to GST, VAT and similar tax systems.

SmoothPay provides an elegant, simple solution to the complications of payroll accounting: It does not and will not create individual creditor payment entries in your accounting system (a huge privacy risk), instead generating a simple journal entry per pay period which debits your wage cost centres (and departments and jobs if used) and credits one or more holding accounts. These holding accounts are where net pays, tax and any deductions are charged when making payments to staff, ATO, unions etc.

Glossary of terms

There are a number of terms that non-accounting people might not be familiar with, so here's a list of common terms we use to describe various things:

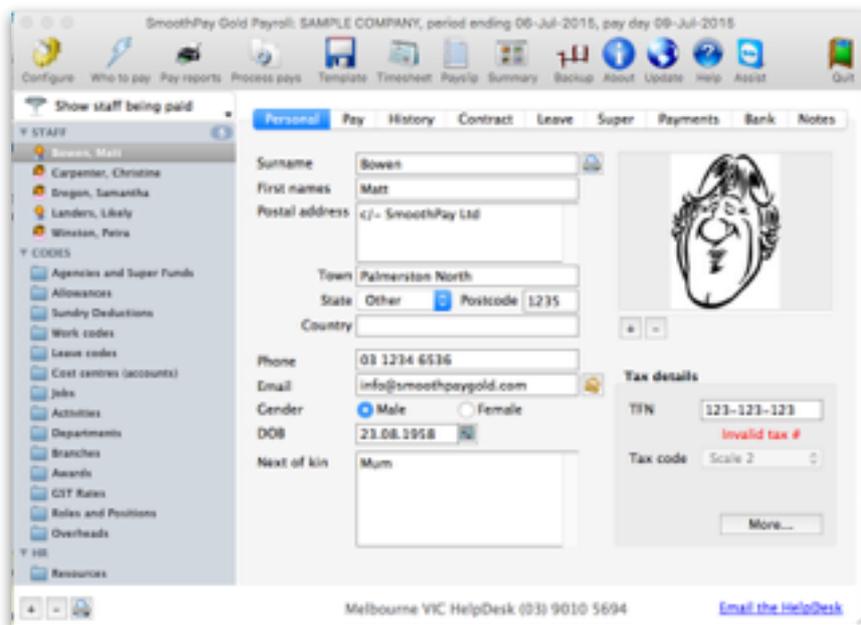| Term	Description
Cost Centre	This is an "Account" in your accounting system's Chart of Accounts - usually an *Expense Account*.
	It is common to use the term *Cost Centre* instead of *Account*, as the term *Account* can be confused with a "*Bank Account*" and/or a *Customer Account*, or an *"Account"* from a supplier etc, all of which are quite different things.
	Also, wages are a "cost", so it makes practical sense to call the account to which it is charged a "cost centre", and avoid the confusion over all the types of "accounts" you'll come across in accounting.
Holding Account (also, **Control Account** or **Suspense Account**)	These are used to "hold" amounts deducted from employee's wages, such as PAYG, Union Fees, voluntary super deductions, debt repayments etc. and may also be used to "hold" the remaining Net Pay amount to simplify your accounting entries (we'll cover that shortly).
	These "held" amounts get paid later to the agency to whom the deduction belongs (e.g. ATO, Union, Super Fund etc).
	Holding accounts are typically established as Current Liability (CL) accounts in your Chart of Accounts (though in reality they can be pretty much any kind of account at all).
	When it comes time to pay the ATO or the Union, simply create a payment as usual, and charge the amount against the appropriate Holding Account.
	GST is another example of a Holding Account (or accounts). The content is stripped from transactions, placed automatically into the appropriate Holding Account, and the total is later paid out to ATO.
Journal entry	Refers to a fully-balanced sequence of debit and credit entries, which effectively transfers costs to cost centres and credits to Holding Accounts which will be paid out later on.
	There is an example in Costing Transfers, Method 2 below.
	Journal entries are also often used to transfer misallocated amounts from one cost centre to another, or to cater for overhead cost allocation between departments, and a whole bunch of other accounting stuff.
Direct Credit (also **EFT**)	Payment by *electronic funds transfer*, either manually using the bank's website/phone banking or forms, or using an ABA (*bank transaction*) file to transfer all payments in a single batch.
	These expressions are used interchangeably in most countries.
Accounting Codes	The expression "Accounting Codes" covers all of the cost allocation codes that might be used, including:
	• Cost Centre (Expense account)
	• Department (budget group)
	• Job
	• Activity
	Some systems may not provide all of these analysis options, and you only need to use the one's that suit your business and accounting requirements.

Setting up your accounting codes

When you first start using SmoothPay, the best place to start is setting up your Codes *(refer to our **Getting Started** guide for initial setup steps)*.
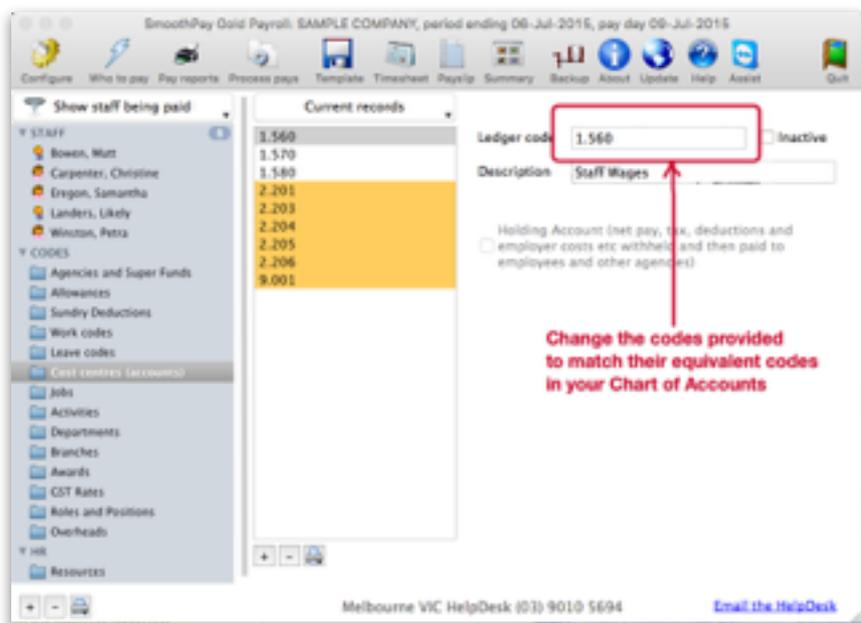
If you're a MoneyWorks user, then most of this work is automated and avoids tedious re-typing, by using *Configure..Accounting..Tools*.

Begin by setting up the cost centres (includes holding accounts), job codes, departments and other accounting settings. Otherwise, you can do this manually as follows:

When you start SmoothPay, the Control Centre is displayed:

Choose the *Codes* tab, then select *Cost Centres* from the drop-down list:

Repeat for *Jobs* and *Departments* (if you use them).

WARNING: If you do not set these items correctly, automatic costing transfers and costing file imports will probably fail, in which case you can easily edit/change the codes and re-export the costing file with the correct code information in it.

Configuration..Accounting

This is where your initial defaults are set for new employees (so it's REALY IMPORTANT that you have these settings correct before you start adding employees), and also where you establish your accounting defaults and options.

Choose *Configure..Accounting*:

Note that you can test communication with MoneyWorks from this screen (via the *Tools* options) - it'll tell you if there are any problems.

For manual import and automatic costing transfers to work, you must have the correct MoneyWorks document open, the Cost Centre codes, Department codes (if used), and Job Codes (if used) that you have used in SmoothPay must match their counterparts in MoneyWorks.

You'll also find a link to the *Accounting Guide* (specifically for MoneyWorks), a companion document to this one.

Set your **holding accounts** as required (if they're not showing up in the lists, go back to *Codes..Cost Centres* to correct them, or import the correct holding accounts via the *Tools* options).

For **GST processing** options, see the GST Processing section at the end of this document.

Set your **default cost centre** for wages costs, and optionally job and activity if you want to). These will be applied as standard settings for new employees. Again, if the code you need isn't there, go back to *Codes..Cost Centres* and make corrections).

The **Tools** options provide a quick way to test your MoneyWorks connection

Using accounting codes in Pay Input to allocate wage costs

Every entry you make in *Pay Input* for *Time*, *Leave* and *Allowances* lets you set the *Cost Centre*, *Department*, *Job* and *Activity*. You don't have to use any or all of these options - just the ones you need.

You can make as many entries as you need (there's no practical limit), therefore your costing analysis can be as extensive (or as simple) as you like.

Note: There are other, efficient, methods of getting time and attendance data into SmoothPay.

- You can use the **CSV import file format** to load new employees and timesheets (refer to the *CSV Import (Staff & Time)* guide), and/or

- you can import data directly from your timeclock (*SmoothPay has built-in support for CS TimeClocks, Schlage HandPunch units, WorkflowMax etc.*), and/or

- you can (*and should*) establish "**Standard Pay**" entries that get used automatically anytime an employee is selected to be paid, otherwise you need to constantly re-enter pay information every period, and/or

- you can use the built-in Timesheet screen - use Ctrl+T (⌘+T), then apply specific costing afterwards if you need to.

There are a two standard methods of transferring payroll costing information to your accounting system - select the one that works best for you:

Method 1: Payroll entries as "Payments" (Creditors)

This assumes you're using a cashbook or express version of MoneyWorks, and if you have only one or two employees it's probably the easiest method for you to use - *it is *not recommended* for privacy reasons and for larger employers, where the Journal method should always be used instead*.

An appropriate source for the payments would be the Pay Input Audit report (or each employee's payslip). Both these are produced during the Standard Reports step of your normal pay process.

Step 1. Choose Cash & Banking..New Payment

Step 2. Complete using entries similar to those shown below:

Some explanation of the entries might be in order...

We've charged (DEBITED) the gross cost of wages (the $800.00 entry) to the Wages EXPENSE account 3290 - you can have multiple cost centres representing the different

areas an employee may work e.g. Kitchen Wages, Laundry Wages, Production Wages and so on.

Your Costing Report will show the breakdown of all cost centres used in your pay inputs for all staff for the whole pay period. If you have only one Wages cost centre then that's the only one you'll ever need to use.

We've CREDITED the PAYG deduction (the -300.00 entry) to the PAYG Holding account - it'll be paid out to ATO when it's time, and to do that you'll create a payment to ATO and charge the total due against the PAYG Holding account - which neatly offsets the credits you've been putting there each pay period.

Any other deductions would be credited (that's a -minus entry) to appropriate Holding Accounts that you might have set up (they're very handy, because you can easily see at a glance what your liability is for money you are holding for other agencies).

The net pay in this example is $500, and is the amount the employee will receive in their bank account (or cheque or cash).

Method 2: Payroll entries as "Journal" entries, followed by one or more "Payment" entries

This will work with whatever accounting system you're using, and is the default method by which SmoothPay Payroll expresses costing information, especially where automation of the process is used.

This method is recommended, as it greatly simplifies the number of accounting entries required, especially if you have more than one employee and multiple cost centres, departments, jobs etc., and it can be used to ensure privacy (*you can consolidate the entries so that individual payments to staff cannot be identified in accounting*).

Again, this example is illustrated using the Cashbook version of MoneyWorks, though the process is similar for other products.

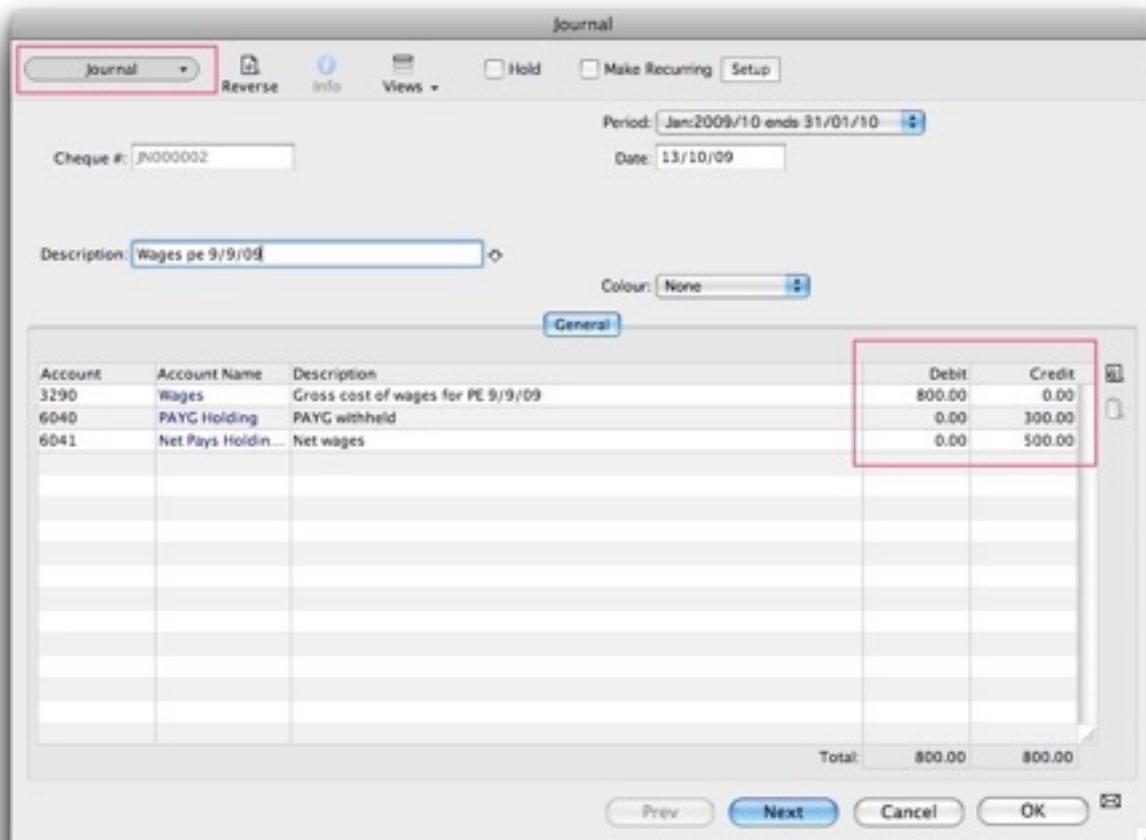> **TIP for MoneyWorks users**: SmoothPay automatically generates a costing analysis file in a format suitable for import (*Express* or above) or direct transfer (*Gold* or above) to MoneyWorks - please refer to the **MoneyWorks Integration** guide for details on how to set this up.

The Journal

Step 1. Choose Cash & Banking..New Payment

Step 2. Complete using entries similar to those shown below:

Note that in this example we have selected "JOURNAL" as the transaction type. This ensures your entries a fully balanced - just like the Costing Report you get from SmoothPay.

As in the previous example, we've charged the gross cost of wages (the $800.00 entry) to the Wages EXPENSE account 3290 - you can have multiple cost centres representing the different areas an employee may work e.g. Kitchen Wages, Laundry Wages, Production Wages and so on.

Your Costing Report will show the breakdown of all cost centres used in your pay inputs for all staff for the whole pay period. If you have only one Wages cost centre then that's the only one you'll ever need to use.

We've CREDITED the PAYG deduction (the -300.00 entry) to the PAYG Holding account - it'll be paid out to ATO when it's time, and to do that you'll create a payment to ATO and charge the total due against the PAYG Holding account - which neatly offsets the credits you've been putting there each pay period.

Any other deductions would be credited (that's a -minus entry) to appropriate Holding Accounts that you might have set up (they're very handy, because you can easily see at a glance what your liability is for money you are holding for other agencies).

We have also CREDITED the net pay amount (-500.00) to the Net Pay Holding Account which we've set up in our MoneyWorks chart of accounts as a Current Liability (CL) account, same as the PAYG Holding account.

The result - costs charged where they need to go, and amounts to be paid-out sitting in Holding Accounts, ready to be paid.

In addition, employee payment privacy is assured.

The Payments

Net Pay Holding
Net Pay amounts are usually paid by Direct Credit (EFT), though staff may request cash or cheque payment as well.

The Net Pay figure will show up on your bank statement - cost it against the Net Pay Holding Account.

If you have told SmoothPay to withhold other deductions (such as Rent, Debt Repayment etc) and that those deduction amounts are to be direct credited to an agency every pay period, then the bank statement entry will include the payments, and you'll need to charge them against the appropriate Holding Account (*we suggest you use the Net pay Holding Account for all such deductions, as they'll automatically be included in your ABA file, and therefore appear in the summarised cost entry on your bank statement*)

If any staff require payment by cheque, then they too should be charged directly to Net Pay Holding Account.

Cash? Draw a cash cheque and charge it against the Net pay Holding Account.

Your Net pay Holding Account should now have a zero balance, as you've disbursed all the funds it contained.

PAYG and other withheld amounts
These are usually paid each month, or sometimes quarterly.

Simply create the payment and charge it against the appropriate Holding Account.

The following example shows the entry of direct credited net pays from the bank statement:

Regardless of how many staff were paid, a simple, single entry is all that is required.

The entry can now be reconciled with your bank statement.

Summary

OK - Method 2 is overkill if you only have one employee, but think of the simplicity when you have 500 staff, multiple Cost Centres, multiple Departments, and multiple Jobs - the number of entries using Method 1 would be in the thousands!

Using Method 2, your entries are reduced to the significant few summarised totals - and if you have transaction import or automatic costing transfers turned on then you only need to concern yourself with the few simple payment entries each pay period, as the costing Journal will have been completed for you.

APPENDIX

Finally, a couple of other bits and pieces you might find useful:

Smoothpay produces the **PAYG Activity Statement** for you - choose *Reports..Tax..PAYG Activity Statement*:

Acme Widgets Pty Ltd
PAYG Activity Statement for paydays 01/07/2009 to 31/07/2009

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1.7.7

	Start	Finish	Gross Total	Less Tax-free	Less Pre-tax	Taxable Earnings	PAYG
Brown, Adrienne			2400.00	0.00	0.00	2400.00	280.00
Brown, Alistair			1846.00	0.00	0.00	1846.00	182.00
Brown, Homer			3000.00	0.00	0.00	3000.00	436.00
Brown, Justin			372.00	0.00	0.00	372.00	62.00
Gardner, Crystal			1800.00	0.00	0.00	1800.00	210.00
Gardner, Sally			3269.20	0.00	0.00	3269.20	528.00
Henemaia, Tama			1038.00	0.00	0.00	1038.00	175.00
Jones, Chris			384.00	0.00	0.00	384.00	75.00
Jones, Lynda			330.00	0.00	0.00	330.00	20.00
Kent, Elle			2355.19	0.02	0.00	2355.17	273.00
Kent, Helen			3200.00	0.00	0.00	3200.00	504.00
Long, Elle			1224.00	0.00	0.00	1224.00	297.00
Long, Elle			888.00	0.00	0.00	888.00	60.00
Luke, Alistair			1711.55	0.01	0.00	1711.54	188.00
Luke, Crystal			3077.00	0.00	0.00	3077.00	464.00
Luke, Sam			440.00	0.00	0.00	440.00	77.00
Pyefinch, Tama			180.00	0.00	0.00	180.00	30.00
Simpson, Chris			1696.50	0.00	0.00	1696.50	157.00
Smith, Adrienne			3846.20	0.00	0.00	3846.20	720.00
Smith, Alistair			402.00	0.00	0.00	402.00	6.00
Smith, Logan			1846.20	0.00	0.00	1846.20	188.00
Smith, Matthew			0.00				0.00
Who, Erin			189.00	0.00	0.00	189.00	31.00
Williamson, Crystal			3846.20	0.00	0.00	3846.20	720.00
Williamson, Graham			2846.20	0.00	0.00	2846.20	384.00
Williamson, Wilson			1610.00	0.00	0.00	1610.00	326.00
Zander, Lynda			3077.00	0.00	0.00	3077.00	464.00
			46874.24	0.03	0.00	46874.21	6857.00

Summary:

Total salary, wages and other payments	W	46874
Amount withheld from payments shown at W1	W	6857
Amount withheld where no ABN is quoted	W	0
Other amounts withheld (excluding any amount shown at W2 or W4)	W	0
Total amounts withheld	W	6857

You'll find it much easier to reconcile and complete your BAS correctly.

SmoothPay's **Costing Reports** can be produced during each pay process, from the Standard Reports screen:

or, from *Reports..Pay..Costing Analysis* (there are two options, (*batch*) which reports for any selected batch, and (*date range*)):

Cost Centre Analysis, batch 2 period end 26Jul09 paid 27Jul09

	Earnings			Allowances		
	Ordinary	Overtime	Leave	Direct	Pro-rated	Total

Costing Analysis

580 Staff Wages

	Ordinary	Overtime	Leave	Direct	Pro-rated	Total
Brown Adrienne	1200.00					1200.00
Brown Alistair	1004.00					1004.00
Brown Homer	1500.00					1500.00
Gardner Crystal	600.00					600.00
Gardner Sally	1634.60					1634.60
Kent Elle	1179.33			0.02		1179.35
Kent Helen	1600.00					1600.00
Long Elle	144.00					144.00
Long Elle	324.00					324.00
Luke Alistair	980.76			0.01		980.77
Luke Crystal	1538.50					1538.50
Simpson Chris	823.50					823.50
Smith Adrienne	1923.10					1923.10
Smith Logan	923.10					923.10
Who Erin	189.00					189.00
Williamson Crystal	1923.10					1923.10
Williamson Graham	1423.10					1423.10
Williamson Wilson	750.00					750.00
Zander Lynda	1538.50					1538.50
	21198.59	0.00	0.00	0.03	0.00	21198.62
Department Total	21198.59	0.00	0.00	0.03	0.00	21198.62
Totals	21198.59	0.00	0.00	0.03	0.00	21198.62

Payroll Contra Entries

Control (holding) accounts

	Ordinary	Overtime	Leave	Direct	Pro-rated	Total
580 Wages					18103.62	18103.62
670 PAYG Payable					3095.00	3095.00
	0.00	0.00	0.00	0.00	21198.62	21198.62
	0.00	0.00	0.00	0.00	21198.62	21198.62
Totals	0.00	0.00	0.00	0.00	21198.62	21198.62

From this report it's easy to enter your costing journal, and of course you can import the costing analysis as a fully-balanced journal entry into MoneyWorks (*Express or above has import facilities, Gold or above has automation facilities*), so the entire process can be automated.

GST Processing

Config..Accounting provides a setting for GST processing (*if it's not set, and you choose GST processing for an employee, SmoothPay will prompt you for how GST should be handled*).

You only need to set this option if you employ contractors or GST Registered staff so that GST content of their earnings can be isolated for tax, invoice and GST claim purposes.

GST amounts: If you want SmoothPay to process GST for any staff or contractors, choose the most appropriate method from:

- **Exclusive**: *entries you put in SmoothPay will *exclude GST* and SmoothPay will add it on automatically.*
- **Inclusive**: *entries you put in SmoothPay will *include GST* and SmoothPay will work out the GST content automatically.*

GST value is determined from the GST setting specified for each Pay Input code (*Codes..Time, Leave, Allowance etc codes*). These GST settings are only available if you have selected a GST processing method in Config.

Individual GST-registered staff can be set to produce a payslip or Tax Invoice showing GST.

GST content will be automatically costed to the GST Account specified in *Config..Accounting*.

Feedback

We're always keen to do better!

Any and all feedback is appreciated and if you feel we could include better examples, provide more explanation, provide references to additional information, make a process easier to use, or you spot something that isn't working the way it's supposed to - please let us know.