



Demystifying Payroll

Understanding the Essentials of Payroll Systems

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Understanding Payroll

Payroll refers to the process by which employers pay their employees for the work they have completed during a specific period. This process involves several key components and is an essential function within any organization. Let's explore the different aspects of payroll to gain a comprehensive understanding.

Key Components of Payroll

1. Employee Information

- Personal details: Name, address, and identification numbers.
- Employment details: Job title, department, and employment status.
- Compensation details: Hourly rate or salary, benefits, and deductions.

2. Time Tracking

- Recording hours worked: This can be done manually or through electronic systems.
- Overtime and leave: Tracking any additional hours worked or leave taken.

3. Calculating Wages

- Gross Pay: The total amount earned before deductions.
- Deductions: Taxes (federal, state, local), social security, Medicare, and any other with holdings like retirement contributions or health insurance.
- Net Pay: The amount the employee takes home after deductions.

4. Payroll Taxes

- Employer contribution: Employers are required to pay certain taxes on behalf of their employees, such as unemployment taxes.
- Tax filing: Regular filing of payroll taxes with government agencies.

5. Issuing Payments

- Payment methods: Direct deposit, checks, or payroll cards.
- Pay schedule: Weekly, bi-weekly, semi-monthly, or monthly.

6. Record Keeping and Compliance

- Maintaining accurate records for each employee.
- Ensuring compliance with employment laws and regulations.

Importance of Payroll

- **Employee Satisfaction:** Timely and accurate payment is crucial for employee morale and trust.
- **Legal Compliance:** Proper payroll management ensures adherence to laws and regulations, avoiding penalties.
- **Financial Management:** Payroll is a significant expense, and managing it efficiently impacts the organization's financial health.

Example of a Salary Structure

Creating a salary structure in Tally involves setting up various components that make up an employee's total compensation. This structure can be customized according to the needs of the organization and includes several key elements. Here's an example of a salary structure set up in Tally:

1. Base Salary

- **Definition:** The fixed amount of money paid to an employee before any incentives, allowances, or bonuses.
- **Configuration in Tally:** Base salary is typically set as a fixed amount in the employee's payroll ledger.

2. Allowances

Housing Allowance

- **Purpose:** To assist with living expenses.
- **Configuration:** Entered as a percentage of the base salary or a fixed amount.

Transportation Allowance

- **Purpose:** To cover travel-related expenses.
- **Configuration:** Set as a fixed monthly amount or based on actual expenses.

3. Deductions

Tax Deductions

- **Includes:** Federal, state, and local taxes.
- **Configuration:** Automated deduction based on employee tax category and applicable rates.

Retirement Contributions

- **Includes:** Contributions to 401(k) or other retirement plans.
- **Configuration:** Set as a percentage of the employee's gross pay.

4. Overtime and Shift Differentials

- **Overtime Pay:** Additional pay for hours worked beyond the standard workweek.
- **Shift Differentials:** Extra compensation for working less desirable shifts.
- **Configuration:** Overtime is calculated at a predetermined rate (e.g., 1.5 times the regular rate), while shift differentials are set as additional hourly pay.

5. Bonuses

Performance Bonuses

- **Purpose:** To reward employees based on their performance metrics.
- **Configuration:** Can be set as a percentage of the base salary or a fixed amount, depending on performance evaluation.

Signing Bonuses

- **Purpose:** To attract new talent.
- **Configuration:** Offered as a one-time payment and recorded separately in the payroll ledger.

6. Health and Wellness Benefits

- **Includes:** Health insurance, gym memberships, and wellness programs.
- **Configuration:** Recorded as part of the employee's compensation package, either as a fixed benefit or reimbursable expense.

Shortcut Keys for Payroll in Tally

Common Shortcut Keys

1. Gateway of Tally
 - **Alt + G:** Go to the Gateway of Tally from any screen.
2. Payroll Vouchers
 - **Alt + V:** Access the voucher creation screen, where you can enter payroll vouchers.
 - **F4:** Navigate to the payroll voucher type selection.
3. Payroll Reports
 - **Alt + R:** Open payroll-related reports, such as pay slips, payroll statements, etc.
 - **Alt + F1:** Drill down to detailed reports from summarized payroll data.
4. Employee Creation and Management
 - **Alt + C:** Create a new employee master while entering data in any payroll ledger.
 - **Alt + E:** Alter or edit existing employee details.
5. Salary Details
 - **Alt + S:** Open salary details to configure components like basic pay, allowances, and deductions.
 - **Ctrl + Enter:** View or edit the salary detail of a particular employee.
6. Attendance Vouchers

- **Alt + A: Access the attendance voucher creation screen for recording employee attendance.**

Key Benefits of Payroll in Tally

- ✓ **Automated Salary Calculation**
- ✓ **Easy Tax & PF Management**
- ✓ **Payslip & Payroll Report Generation**
- ✓ **Customization Salary Structures**

Steps to Create Salary Structure in Tally Prime

Step 1: Enable Payroll in Tally

1. Open **Tally Prime**.
2. Press **F11** (Features) → Select **Accounting Features**.
3. Set "**Enable Payroll Feature**" to **Yes**.
4. Press **Ctrl + A** to save.

Step 2: Create Payroll Pay Heads

Pay Heads define different salary components like Basic Pay, HRA, PF, etc.

1. Go to **Gateway of Tally** → **Create** → **Payroll Masters** → **Pay Heads**.
2. Enter the details:
 - **Pay Head Name:** e.g., Basic Salary, HRA, Provident Fund
 - **Pay Head Type:** Earnings for Employees / Deductions
 - **Calculation Type:** Fixed, Percentage, Slab
 - **Under Group:** Indirect Expenses (for earnings), Current Liabilities (for deductions)
3. Press **Enter** to save.

Step 3: Create Employee Groups (Optional)

To manage multiple employees, create groups like HR, Accounts, IT, etc.

1. Go to **Gateway of Tally** → **Create** → **Payroll Masters** → **Employee Groups**.
2. Enter **Group Name**, select **Under Primary**.
3. Press **Enter** to save.

Step 4: Create Employee Masters

1. Go to **Gateway of Tally** → **Create** → **Payroll Masters** → **Employees**.
2. Enter details:
 - **Employee Name**
 - **Under Group** (if applicable)

- **Date of Joining**
 - **Salary Details** (Assign pay heads)
3. Press **Enter** to save.

Step 5: Process Payroll & Generate Payslips

1. Go to **Payroll Voucher** (Press **Alt + G** → Type "Payroll" → Enter).
2. Select the salary period and employee.
3. Enter salary components as per pay heads.
4. Save the voucher.
5. To generate payslips:
 - Go to **Display** → **Payroll Reports** → **Payslips**.
 - Print or export as needed.

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