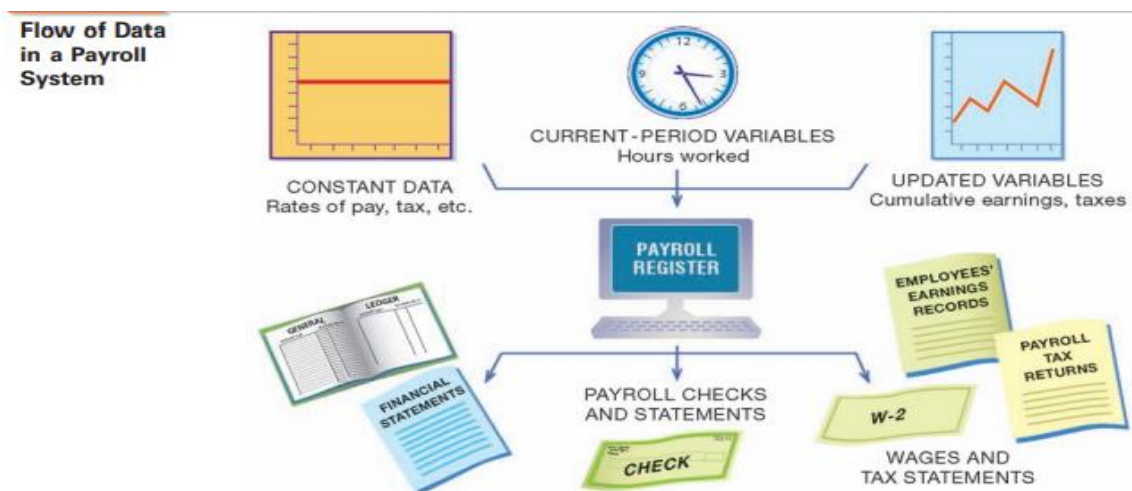


# ACCOUNTING AND FINANCE

## LEVEL – III

Based on March, 2021 Curriculum Version- II



**Module Title: - Process Payroll**

**MODULE CODE : LSA ACF3 10 1121**

**Nominal duration: 100 Hour**

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## Acknowledgment

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## Introduction to the Module

Accounting and finance filed; the Processing Payroll in the work place helps to know the Record payroll data ,Prepare payroll ,Handle payroll enquiries, Maintain payroll Accounting and finance filed.

This module is designed to meet the industry requirement under the Accounting and Finance occupational standard, particularly for the unit of competency Processing Payroll

**This module covers the units:**

- Recording payroll data
- Preparing payroll
- Handling payroll enquiries
- Maintaining payroll

### Learning Objective of the Module

- Record Payroll data
- Prepare payroll
- Handle payroll enquiries
- Maintain payroll

### Module Instruction

For effective use this modules trainees are expected to follow the following module instruction:

- Read the information written in each unit
- Accomplish the Self-checks at the end of each unit
- Perform Operation Sheets which were provided at the end of units
- Read the identified reference book for Examples and exercise

## Unit One: Recording payroll data

This learning guide is developed to provide you the necessary information regarding the following content coverage and topics:

- Checking payroll data
- Entering employee pay period , deductions and allowances in payroll
- Calculating payment due to individual employee source Document

This guide will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to:

- Check and clarify payroll data discrepancies
- Enter employee pay period , deductions and allowances in payroll
- Calculate payment due to individual employees document

### 1.1. Checking Payroll data

#### 1.1.1 Overview of payroll

The concept payroll is often referred to the total amount paid to employees of a firm as a compensation for the service rendered to a firm in a given period of time.

Payroll related payment is highly subject to certain fraudulent activities it is imperative that businesses need to properly design their payroll system so that it safeguards the company's assets against unauthorized payments of payroll and the accuracy as well as reliability of the accounting records is assured pertaining to payroll.

Payroll is a list of employees who get paid by the company. Payroll also refers to the total amount of money employer pays to the employees. It is usually managed by the accounting or human resources department of a company. Small-business payrolls may be handled directly by the owner or an associate

Furthermore, Payroll is also defined as the process of paying salary to a company's employees. It

starts with preparing a list of employees to be paid and ends with recording those expenses.

It's a tangled process that needs different teams such as payroll, HR and finance to work together. But, businesses can manage all the complexities effortlessly by choosing modern technology.

In accounting the term payroll refers to the amount paid to employees for services they provide during a period.

For a business's payroll is usually significant for several reasons:

Employees are sensitive to payroll errors and irregularities (or discrepancies). Maintaining good employee morale requires that the payroll be paid on timely and accurate basis.

- payroll is subject to various federal and state regulations
- The payroll and the related payroll taxes have a significant effect on the net income of most of the business.

### 1.1.2 Payroll Data

Payroll data is the collection of metrics that contribute to the overall business expense of paying people for work performed at your company. There are more than just base salaries to consider here. Other payroll metrics include:

- Any contractor or freelance wages outside of official payroll.
- Any bonuses offered throughout the financial year.
- Withheld taxes.
- Benefits paid to employees.
- Communication expenses that contribute to payroll.
- The cost of remaining compliant with payroll regulation.

Having this information available allows for businesses to accurately predict the total cost of payroll and mitigate the risk against any future payroll changes (or revenue changes, for that matter).

### 1.1.3 Use Payroll Data

Payroll data is a cornerstone metric that is relevant beyond the HR department. It contributes to the overall direction of a business and directly impacts growth.

**Here are a few ways to use payroll data to your advantage.**

- **Eliminate Errors and Save Money:** Payroll is the largest single cost for almost all businesses. For many service-based businesses where payroll is the primary cost for producing a product or service. Consequently, even small persistent errors in payroll can add up to big problems, and you need visibility over your processing and outcomes.
- **Guide Business Direction:** Analyzing payroll data over time can provide more accurate yearly forecasts, so you are better prepared to manage budgets and cash flow in times of change or growth. In short, having visibility into the process empowers business leaders to plot and evaluate ways to grow their company.
- **Win and Retain Top Performers:** Sure enough, many roles within a company may be interchangeable. But, there are always key roles that are critical to the overall success of the business. Losing well-trained, hard-working individuals in those roles can be damaging to success. By monitoring and benchmarking payroll data, then, you can begin to achieve the perfect balance between compensation, performance, and loyalty. That way, you ensure the retention of top talent.

#### **1.1.4 Payroll Discrepancy**

A payroll discrepancy is any difference between what should be calculated and what is included on the employee's paycheck. This might mean that hours are missing, so the employee worked more hours than the payroll has accounted for. A discrepancy can also mean an overpayment, which can be extremely costly for the company especially if it's a processing error that caused all wages to be overpaid.

There are several different discrepancies that can occur. Taxes might be improperly assessed, overtime might not be included, or overtime hours might be miscalculated. Any payroll error has some repercussions, and it's important that they are identified and fixed as soon as possible. You also can't depend on the employee to bring an error to your attention. They may not identify the error. If its root cause is in the way you're processing payroll, the error will likely be repeated every pay cycle until it's caught and remedied.

#### **Most Common Payroll Errors**

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Any area of payroll reporting, data, and management is susceptible to error when you think about it. It really comes down to the accuracy of your information. If you accidentally mistyped something in the payroll, it's going to be wrong. The wrong number of hours will mean that everything on that payment cycle will be inaccurate..

The **most common payroll mistakes** that companies make:

- **Incorrect Tax Forms:** Your employee uses their tax form and any other company-issued tax form to pay their income taxes. Any mistake here will cause problems for the company and the employee.
- **Misclassification of Employees:** The classification of employees is a legal matter, not a company choice. Classifying an employee as an independent contractor will result in a significant problem because the company will need to pay fines and taxes, as well as interest. You may have independent contractors working for your company, as well as permanent employees. Make sure they are classified correctly in payroll.
- **Not Updating Tax Rates:** Tax rates are subject to change, and it's the company's responsibility to stay informed and make those changes in payroll.
- **Not Tracking Employee Hours Correctly:** If there are mistakes in the number of hours the employee worked, the pay will be off. It's important to have solutions in place that make it easier for employees and managers to have accurate records of employee hours.
- **Errors in Calculating Overtime:** Overtime can be a difficult thing to calculate because it may differ per employee. Salaried employees do not receive overtime, but companies need to be careful in classifying these employees. Non exempt employees are entitled to overtime when they work more than 40 hours a week.

Payroll related payment is highly subject to certain fraudulent activities it is imperative that businesses need to properly design their payroll system so that it safeguards the company's assets against unauthorized payments of payroll and the accuracy as well as reliability of the accounting records is assured pertaining to payroll.

Some of the possible frauds that can be made on the payroll system are the following:

- Adding fictitious employees to the payroll
- Listing terminated employees on the payroll



- Using unauthorized pay rates
- Overstating working hours
- Issuing duplicate payroll checks
- Not deducting employees' absent time
- Making incorrect totals on the payroll register

Thus, separation of duties on the functions of payroll activities is essential for strong internal control over payrolls in order to protect the above-mentioned methods of stealing money from company.

Payroll activities involve **four functions**: hiring employees, timekeeping, preparing the payroll, and paying the payroll. For an internal control system to work effectively these four functions should be assigned to different departments or individuals.

#### **Designated persons to check payroll data and clarify discrepancies**

- Payroll manager
- Senior finance officer
- Human resource manager
- Chief executive finance officer

## **1.2 Entering employee pay period, deductions and allowances in payroll**

### **1.2.1. Employee Pay period details**

A pay period is a recurring length of time over which employee time is recorded and paid for. Examples of pay periods are weekly, biweekly, semimonthly, and monthly. A pay period details how regularly employees get paid and the amount of salary/wage they'll receive yearly. An employee's pay frequency can determine the portion of monthly deductions taken per month. A semi-monthly (twice a month) pay period occurs two times per month.

- **Weekly:** A weekly pay period results in 52 paychecks in a year. Hourly employees are often paid weekly. Sometimes these employees are paid a week in arrears. That is, they record and turn in their time sheets at the end of one week, and are paid for that time a

week later. That gives the payroll clerk time to calculate pay for these employees.

- **Biweekly:** A biweekly (every other week) pay period results in 26 paychecks in a year. Some hourly employees are paid biweekly, as are some salaried employees.
- **Semimonthly:** A semimonthly (twice per month) pay period results in 24 paychecks in a year. Salaried employees are typically paid semimonthly.
- **Monthly:** A monthly pay period results in 12 paychecks in a year. Almost all monthly pay periods are for salaried employees.

### Employee Pay period details

- bonus
- commission
- piecework
- casual wage
- contract
- salary/wage

### 1.2.2. Employee deduction

Employee Deductions are the amounts subtracted from an employee's gross pay to reach net pay.

There are two types of Deductions:

- 1) Pre-Tax Deductions (also called Before Tax Deductions)
- 2) Post-Tax Deductions (also called After Tax Deductions)

Examples of payroll deductions

#### Deductions Mandatory deductions:

- Social Security and Medicare
- Federal Income Tax
- State Income Tax
- Child support payments
- Union dues

#### Voluntary deductions:

- Health insurance, premiums
- Retirement accounts contributions
- Life insurance premiums
- Disability

### 1.2.3 Employee allowance

#### **Allowance**

An allowance is an additional payment made by an employer to his employee or an additional benefit that will accrue to an employee from his/r employer for a particular purpose. Depending upon the purposes, there are variants of allowances to employees, some of which are in the form of cash and some others are in-kind (non-cash).

#### **Transportation (Fuel) Allowance**

This is a monthly allowance payable by an employer to his/r employee to cover the employee's cost of transportation for travelling from home to work place and vice versa or to travel from place to place for carrying out the employer's task because of the nature of the employer's task.

Transportation allowance may also include an allowance payable to an employee to cover the fuel cost of the employee if a vehicle is already allotted to the employee by his employer. This is commonly called a **fuel allowance**. Transportation (vehicle) allowance may still refer to any payment that that an employee receives from his employer for using his own vehicle in connection with or in the course of his employment.

Transportation allowance is normally payable to an employee from his/r employer if the employment contract requires the employer to provide transport service but fails to do so. This means transportation allowance is normally payable in lieu of transportation service.

#### **Position (Acting or Headship) Allowance**

Position (acting or headship) allowance is a monthly allowance payable by an employer to his employee for carrying out a particular office responsibility (position) in addition to his/r normal work of employment.

For instance, a special additional payment to a college department head or a specialized team leader for holding the office responsibility in addition to his/r normal work of employment, i.e., teaching/lecturing, is considered as a position allowance.

Payment of a position allowance to an employee is discontinued if the employee bearing the particular responsibility is replaced by another person, resigns from his position, or is promoted to the salary assigned to that position.

### **Housing (House rent) Allowance**

Housing allowance is a monthly allowance payable by an employer to his employee to cover the monthly rental costs of residential accommodation occupied by the employee. Such an allowance is payable by the employer to the employee when the employment contract requires the employer to provide for housing facility to the employee but fails to do so.

### **Hardship (Disturbance) Allowance**

Hardship allowance is a sum of money given to an employee by his employer to compensate for an inconvenient circumstance caused by the employer on the employee. For instance, if an employee is unexpectedly transferred to a distant work area from his/r normal place of employment or is assigned to work in hazardous working area, the employee may be compensated in the form of hardship allowance.

Hardship allowance may also refer to a monthly allowance, instead of a lump-sum amount, payable to an employee working a dangerous task or assigned in hazardous working area such as task in chemical industry and mining task.

### **Desert (Bad climate) Allowance)**

Desert allowance is a monthly allowance payable to an employee because the employee was assigned to work regularly in a relatively hot region (area) of the country stipulated by the relevant laws. Hence, it does not mean that all of the hot regions (areas) of the country are entitled to a desert allowance.

Depending on the collective agreement or other relevant laws, desert allowance may vary from one temperature area to another temperature area and from one employer to another employer even within the same temperature area.

For instance, an employee of **X Company** who works in hot area over 35° Celsius may be entitled to a desert allowance of, say 40% of his/r monthly basic salary. Another employee of **Y Company** who works in the same temperature area may be entitled to a desert allowance of, say 30% of his/r basic salary. An employee of **Z Company** who still works in the same temperature area may not be entitled to a desert allowance. So far, there is no cold allowance since it is possible to resist cold.

### **Cash Indemnity Allowance**

This is an allowance payable to cashiers to cover the risk of possible cash shortage. Cash indemnity is used to cover **accidental shortage** and **not intentional** shortage. Some banks in our country such as *Dashen Bank*, *Wegagen Bank*, and *CBE* confer such type of an allowance.

It is customary that undertakings do not pay cash indemnity allowance to the cashiers (employees) monthly along with their salary. Instead, the cash indemnity will be retained by the employer until it reaches a desired sum. Once the desired sum is reached, the lump sum indemnity allowance will be paid to the cashiers.

### **Medical Allowance**

It is a monthly allowance payable to an employee from his/r employer to cover the costs of medical treatment of the employee, or is a reimbursement of the actual costs of medical treatment of an employee by his employer. Medical allowance may also include the coverage of the cost of medical treatment of an employee's family.

### **Representation Allowance**

This is a monthly allowance payable by an employer to his/r employee whose work requires him to entertain customers and guests in connection with the tasks of undertaking. It also refers to an allowance payable to an employee who represents his/r employer (undertaking) in different places such as in a workshop, meeting, seminar, and bazaar for the affairs of the undertaking (employer).

### **Milk Allowance**

Milk allowance is free milk provided by an employer to his/r employees during working hours. Such an allowance is mostly provided to those employees who work in production department of manufacturing companies. **Artistic Printing Enterprise** and **National Alcohol & Liquor Factory** are good examples that provide such an allowance to their employees who work in production section

### **Telephone Allowance**

This is an allowance payable by an employer to his/r employee to cover the telephone expenses, which may include a cell phone and/or sim-card, of the employee. Such an allowance may be provided to the employee in cash or in the form of mobile card (in-kind). Such an allowance may also be provided to the employee for official use or for personal use or for official use as well as personal use.

### **Foreign Allowance paid by the government**

Foreign allowance paid by government is an allowance payable outside Ethiopia by the government of Ethiopia to a citizen of Ethiopia for rendering service outside Ethiopia. Such an allowance is not a form of employment income in customary practice.

### **Education Allowance**

This is a benefit accruing to an employee when the employer covers educational expenses (such as tuition fee) of his employee. It is customary that such an allowance is avail for permanent employees who serve the employer for a minimum of a certain period.

Educational expenses of an employee (worker) may initially be paid by the employer to the employee or may initially be incurred by the employee and later be reimbursed by the employer. Educational allowance does not form a part of the employment income.

Educational allowance is a common practice in some governmental and private organizations in Ethiopia. Commercial Bank of Ethiopia (CBE), Ethio-Telecom, Ethiopian Electric Power Corporation (EEPCO), governmental universities, Dashen Bank S.C., and MIDROC Ethiopia are good examples of undertakings that cover the educational expenses of their employees.

### **Per-Diem**

Per-diem may be defined as a payment by an employer to his/r employee for expenses incurred by the employee wholly, necessarily and exclusively for carrying out the duties of the employer, which will be undertaken by the employee by travelling a certain distance from his/r normal working place.

Those expenses may include expenditure for meals, lodging (room), traveling (transportation) and similar other incidental. The allowance for such expenses or reimbursement of such

expenses is known as per-diem. Per-diem is common in most governmental and private organizations in Ethiopia such as Ethio-Telecom, CBE, National Alcohol and Liquor Factory, and EEPCO.

### **Commission**

Commission is remuneration by an employer to his employee for his/r additional activity required as part of the normal work. It is also compensation to incentivize and employee for meeting or exceeding a particular target.

For instance, to promote sales, an employer may provide remuneration (commission) for sales personnel (employees) in proportion to sales volume achieved by those sales personnel. Usually, an employee is entitled to a monthly basic salary and earns commission on top of that for his/r additional activity. However, some workers may be employed on a commission-only basis in which all their earnings are made up of commission payments. Hence, commission may be paid in addition to the monthly basic salary or in lieu of the monthly basic salary.

### **Bonus**

Bonus pay may refer to payments to managers and other employees, usually based on their monthly basic salaries, as thank you when businesses are making attractive profit because of better or best performances by the managers and other employees.

It is also used by some organizations as a thank you to employees that achieve significant goals; and to improve employees' morale, motivation and productivity. Bonus is usually payable by businesses on annual basis. However, it is also possible to pay bonus on quarterly and semi-annual basis.

### **Gift and Award**

A **gift** is a monetary or non-monetary payment to an employee from an employer for a special occasion such as a religious festive holiday, a birthday, a wedding, the birth of a child, or bereavement (condolence). On the other hand, and an **award** is a monetary or non-monetary prize to an employee from an employer for employment related accomplishment such as outstanding service provided, completing a project ahead of time, and meeting production standards.

Examples of gifts and awards include gift of T-shirt with employer logo, wedding gift, holiday gift, gift recognizing birth of first child, innovation and excellence award, employee achievement award, anniversary award, and longevity service award. Gifts and awards received by employees from their employers are counted as employment income.

### **Compensation for Accident or Death**

In the context of employment income taxation, this is a payment made by an employer to his/r employee as compensation or gratitude in relation to personal injuries suffered by the employee himself/herself or the death of another person relating to the employee like the wife/husband or son/daughter or mother/father of the employee. Such compensation is not treated as an employment income since it is a pay for exerted damage or death.

### **Employer's Retirement Benefit Contribution to Employee (Provision for Retirement)**

Retirement benefit (social security) contribution by an employer to his/r employee normally includes **provident fund** and **pension contribution**. A provident fund, also known as superannuation fund, is a fund reserved by both an employee of a private organization employer and his/r employer in the name of the employee to pay a monthly retirement pension to the employee when he/she retires from service due to attaining retirement age (60 years).

In the event of death of the employee, the retirement pension shall be paid to the legal heirs of the deceased employee such as the employee's widow or widower, children of the deceased employee, any parent who was being supported by the deceased employee, and any other legal heir.

As per the newly proclaimed '**private organization employees Pension Proclamation No. 715/2011**,' the monthly pension fund contribution by an **employee** himself/herself is currently **7%** (seven percent) of his monthly basic salary and **11%** (eleven percent) on the same basis by the **employer** in the name of the employee.

**Governmental** employer organizations in Ethiopia also have pension scheme to benefit their permanent employees upon attaining retirement. As per the newly employees of governmental organizations are required to contribute **7%** (seven percent) of their monthly basic salary. The



employer also contributes towards this employee (except for military and police officers, which is 25% - *twenty five percent*).

This amount will be withheld (deducted) by the employer from each employee on every payroll including his contribution and later is paid to the Public Servant Employee Social Security Agency.

For income taxation purposes, the monthly retirement benefit contribution by an employer to his employee is considered as additional employment benefit to the employee.

### **Employment Termination Payments (Golden Handshakes)**

Employee termination payments may refer to any compensation received by an employee from his employer in connection with termination of his employment contract. Termination of employment contract can take place by resignation, dismissal, compulsory retirement, attaining superannuation, or voluntary retirement.

Hence, an employment contract may be terminated by the initiation of an employee (worker) or by the initiation of an employer. Evidencing the LP#377/2003, the following are payments by an employer to his employee(s) upon termination of employment contract.

### **Meaning of Severance Pay**

Severance pay is a payment from an employer to his employee who has completed his probation and whose contract of employment is terminated due to one or more of the following reasons:

- If the contract of employment is terminated because the employer ceases operation permanently due to bankruptcy or for any other reason.
- If the contract of employment is terminated because the employee is reduced due to lawful reduction of work force by the employer organization.
- If the employment contract is terminated by the initiation of the employer against the provision of law.
- If the employee terminates his employment contract because his employer did things which hurts the employee's human honor and moral or the thing done by the employer is deemed as an offence under the penal code.
- If the employee terminates his/r employment contact because the employer being informed of the danger that threatens the security and health of the worker did not take measures.

- If the employee terminates his/her employment contract because of reason of partial or total disability and is certified by medical board.
- If the employee has no entitlement to a provident fund or pension right and his contract of employment is terminated upon attainment of retirement age stipulated in the pension law.
- If the employee has given service to the employer for a minimum of five years and his/her contract of employment is terminated because of his sickness or death or his/her contract of employment is terminated on his own initiation provided that he/she has no any contractual obligation, relating to training or education, to serve more with the employer.
- If the contract of employment is terminated on his/her own initiative because of HIV/AIDS case.

### **Payroll systems**

An organizations payroll system may be either:

- 1) manual
- 2) computerized

## **1.3. Calculating payment due to individual employee source Document**

### **1.3.1. Payment due**

Owed at present; having reached the date for payment: This bill is due. Owing or owed, irrespective of whether the time of payment has arrived: This bill is due next month.

### **Procedures to calculate employee payment due**

For salaried employees, annual gross pay is simply their salary; monthly gross pay is that salary divided by 12. For employees who earn hourly wages, gross pay is calculated by multiplying the number of hours they work by their hourly wage (plus any adjustments for overtime.)

#### **Eg. Calculating individual salary payment system.**

If the salary of an employee is 2,000 Birr, Tax Rate = 15% and deduction = 142.50

Income Tax = (2,000 Birr x 15%) – 142.50 Birr

Income Tax = 300 Birr – 142.50 = 157.50 Birr

Employee Pension = 2,000 Birr x 7% = 140 Birr

Employee Net Income = 2,000 Birr – 157.50 – 140 = 1702.50 Birr

Net Income = 1,702.50 Birr

## **Operation sheet . 1      Recording payroll data**

**Instructions:-Prepare tools and equipment for recording payroll data.**

**Computer, A4 papers, pen , pencils, binders , company manuals and guide lines, business commercial codes etc**

Task1:- list the necessary steps to record payroll data

1. Employee's full name and Social Security number
2. Employee's address and ZIP code
3. Employee's date of birth and legal gender
4. Employee's occupation
5. Time and day of the week when the employee's workweek begins
6. Hours worked each day
7. Total hours worked each workweek
8. Basis of pay (hourly or weekly rate, commission, service-based, or salary)
9. Regular hourly pay rate
10. Total daily or weekly straight-time earnings
11. Total overtime earnings per workweek
12. All deductions made from the employee's wages
13. Total wages (gross and net pay) paid every pay period
14. Pay dates and pay period dates

## Operation Sheet 2

### Recording payroll data

- Employee name: Adam
- Employee ID: 1001
- Position : manager
- Company name : ABC pvt Ltd
- Join date : 5-Dec-2021
- Hourly rate Br.= 54.09
- Total over time hours= 10 hrs
- Over time br. 540.87
- Gross pay br. 15000
- Tax br=1350
- Insurance br. 900
- Provident fund br. 1500
- Net pay 10492.79
- Payment date 12/30/2021

Using the above genral information recording payroll data in the following table.

	<b>Company name</b> -----						
Employee ID		Join date -----					
Employee name							
Designation							
	<b>Payment this period</b>		<b>Gross pay</b>	<b>Deduction from gross pay</b>			<b>Net pay</b>
Hourly rate	Total over time hours	Over time		Tax	Insurance	Provident fund	
Signature -----				Payment date-----			

## Self-Check of unit –one

1. Define Allowance

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2. Write the type of allowance

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3. Identify Taxable and non taxable

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4. Identify the discrepancies of payroll data

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5. Identify possible frauds that can be made on the payroll system

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## Unit Two: Preparing payroll

This learning guide is developed to provide you the necessary information regarding the following content coverage and topics:

- Preparing Payroll
- Reconciling and checking total salary/wages irregularities
- Making arrangements for payment
- Obtaining authorization of payroll and individual pay advice
- Producing Payroll records
- Following security procedures for processing payroll

This guide will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to:

- Prepare payroll
- Reconcile total salary/wages for pay period, check irregularities
- Make arrangements for payment
- Obtain authorization of payroll and individual pay advice
- Produce, payroll records
- Follow security procedures for processing payroll and payroll records

### 2.1. Preparing Payroll

Salary and wages are usually used interchangeably. However, the term wages is more correctly used to refer to payments for manual labor that are paid based on the number of hours worked or the number of units produced. So, they are usually paid when a particular piece of work is

completed or weekly. On the other hand, compensations to employees on monthly or annual basis are termed as salaries.

It must be clear that when we say an employee, we refer to an individual who works primarily to an organization and whose activities are under the direction and supervision of the employer. Hence, an employee is different from an independent contractor, a self-employed individual who works on a fee basis to a firm.

**The Pay Period:** The length of time covered by each payroll payment. Pay period for wage workers are usually made on weekly or biweekly. On the other hand, salaried employees' pay periods are monthly or semimonthly.

**The Pay Day:** The day, on which wages or salaries are paid to employees, usually the last day of the pay period, is known as the payday.

A basic record of a payroll accounting system includes:

- 1) A payroll register (or sheet)
- 2) Individual employees' earnings records, and
- 3) Usually, pay checks.

These records are generated from a payroll system that is operated manually or using computers.

**A. Payroll Register (Sheet):** The entire list of employees of a business along with each employee's gross earnings, deductions and net pay (or the take home pay) for a particular payroll period. The basis for the preparation of the payroll register can be the attendance sheets, punched (clock) cards or time cards.

**Employee Earnings Record:** It is a summary of each employee's earnings, deductions, and net pay for each payroll period and of cumulative gross earnings during the year. It is a separate record kept for each employee. The individual employees' earnings record helps the employer organization to properly summarize and file tax returns.

**Pay Check:** An instrument for paying salary if the firm makes payment via writing a check in the name of each employee for the net pay or a check for the total net pay.

**Gross Earnings:** - The total pays to an employee before deductions for the pay period.



**Payroll Taxes:** Are taxes levied against the employer on the payroll of a firm. It is an additional payroll related expense to an employer.

**Withholding Taxes:** These are taxes levied against the earnings of employees of an organization and withheld by the employer per the regulations of the concerned government.

**Payroll Deductions:** All the reductions from the gross earnings of an employee such as withholding taxes, union dues, fines, credit association pays, etc.

**Net Pay:** The gross earnings after subtracting all the deductions. An employee sometimes knows it as take home pay, the amount collected on the payday.

### **Possible Components of a Payroll Register**

- 1) **Employee number:** Numbers assigned to employees for identification purpose when a relatively large number of employees are included in the payroll register.
- 2) **Name of employees:** List of the names of employees
- 3) **Earnings:** money earned by an employee(s) of a firm from various sources. It may include:
  - a. **The basic salary or regular earning** a flat monthly salary of an employee that is paid for carrying out the normal work of employment and subject to change when the employee is promoted.
  - b. **Allowances:** Money paid monthly to an employee for special reasons, which may include.
    - i. **Position Allowance:** A monthly sum paid to an employee for bearing a particular office responsibility, head of a particular department or division.
    - ii. **House allowance:** A monthly allowance given to cover housing costs of the individual employee when the employment contract requires the employer to provide housing but fails to do so.
    - iii. **Hardship Allowance:** A sum of money given to an employee to compensate for an inconvenient circumstance caused by the employer. For instance, unexpected transfer to a different and distant work area or location. It is sometimes known as disturbance allowance.
    - iv. **Desert Allowance:** A monthly allowance given to an employee because of assignment to a relatively hot region.

- v. **Transportation (fuel) Allowance:** A monthly allowance to an employee to cover cost of transportation up to the work place if the employer has committed itself to provide transportation service.

For tax purposes, discussion on allowance is divided into three parts:

- i. Fully taxable allowances, Partially taxable allowances, Fully exempted allowances

### **Fully Exempted Allowances**

However, the following are fully exempted allowances based on statutory laws and practices:

- Hardship allowance                      Milk allowance
- Education allowance                      Uniform allowance
- Academic allowance                      Telephone allowance (if for office use) and so on.....

## **Overtime (OT) Payment Determination**

### **1. Bases for Overtime Computation**

Regular hourly rate of an employee and article 68 of proclamation No 377/2003 (overtime payment rates) are the bases for overtime computation and payment for government organization employees.

- The normal working hours, of course, may vary from country to country and from employer to employer even within the country or state. In reference to **article 61(1)** of the LP#377/2003, normal working hours in Ethiopia shall not exceed eight (8) hours per day or forty-eight (48) hours per week.

### **Regular Hourly Rate**

- Also known as basic salary per hour is the payment per hour for the regular/normal working hours.
- **Normal working hours = (8 hours per day) x (6 working days per week)**  
**= 48 hours per week**
- Regular hourly rate is calculated as follows.

$$\text{Regular hourly rate} = \frac{\text{Monthly Basic Salary}}{\text{Normal working hours per month}}$$

## 2. Overtime Rates

In accordance with article, 68 of the labor proclamation there are four overtime payment rates in Ethiopia applicable to civil servants and stated as follows:

For Overtime Performed	A worker shall be entitled to be paid at the rate of:
1. Between 6 O'clock in the morning (6AM) and 10 O'clock in the evening(10 PM)	1¼ <sup>th</sup> or 1.25 or 125% times employee's regular hourly rate.
2. Between 10 O'clock in the evening (10 PM) and 6 O'clock in the morning (6 AM)	1½ or 1.5 or 150% times employee's regular hourly rate.
3. On weekly rest days	2 or 200 % times employee's regular hourly rate.
4. On a public holidays	2½ or 2.5 or 250% times employee's regular hourly rate.

Overtime Earning = (Overtime hours worked) X (Regular hourly rate) X (Overtime rate)

### BE AWARE OF THE FOLLOWINGS

- If a public holiday coincides with a weekly rest day or another public holiday, a worker shall be entitled to only one payment for working on such a day.
- Currently Ethiopia has thirteen (13) public holidays, which are both historical memorial holidays of Christians and Muslims origins and national holidays described by law.

#### Working Conditions of Women And Young Workers In Ethiopian

The following general conditions to be considered in employing and assigning for overtime works to employees for circumstances in which overtime is permissible.

- No pregnant woman shall be assigned to night work between 10 PM and 6AM or be employed on overtime work.

- It is prohibited to employ young worker on: night work between 10 PM and 6 AM overtime work, rest days; or public holidays. Young worker means a person who has attained the age of 14 but is not over the age of 18 years.
- It is prohibited to employ persons less than 14 years of age.
- Normal hours of work for young workers shall not exceed seven hours a day.
- Currently, Ethiopia has thirteen (13) public holidays, which are both historical memorial holidays of Christians and Muslims origins and national holidays described by law.

**These public holidays are:**

- 1) Ethiopian new year (national),
- 2) Finding of the True Cross (Christian memorial),
- 3) Eid-Al-Fetir-Ramadan (Muslim memorial),
- 4) Eid-Al-Adha (Muslim memorial),
- 5) Ethiopian Christmas Day (Christian memorial),
- 6) Ethiopian Orthodox Epiphany (Christian memorial),
- 7) The Commemoration of the Adwa Victory Day (national),
- 8) Mauled Al Nabi (Muslim memorial),
- 9) Coptic Good Friday (Christian memorial),
- 10) Ethiopian Easter (Christian memorial),
- 11) International Labor Day or May Day (national),
- 12) Ethiopian Patriots' Victory Day (national), and
- 13) Overthrow of the Derg Regime [Ginbot-Haya] (national)

#### **4) Deductions**

These are subtractions made from the earnings of employees that is because it is required by government or permitted by the employee himself. In our country, Ethiopia, some of the deductions against the earnings of employees are:-

- a) **Employee Income Tax** In Ethiopia every citizen is required to pay something in the form of income tax from his/her earnings of employment. In this case a progressive income tax system that charges higher rates for higher earnings is applied on the gross earnings of each employee.

According to the amended income tax proclamation no. 976/2016 the tax on income from employment over one six hundred (Br 600) shall be charged, levied and collected according to the following income tax rates.

Income level	Tax rate	Deductions
0 – 600	0 %	0
601 -1,650	10 %	60
1,651 -3,200	15 %	142.50
3,201 – 5,250	20 %	302.50
5,251 – 7,800	25 %	565
7,801 – 10,900	30 %	955
>10,900	35 %	1,500

Generally, taxable income from employment includes salaries, wages, allowances, director's fees and other personal employment, all payments in cash and benefits in kind. However, according to income tax amendment proclamation no. 976/2016 issued on August 18th 2016 stated that the following categories of payments in cash or benefits in kind are exempted from taxation.

- Medical costs incurred by employer for treatment of employees.
- Transportation allowances paid by employer to its employees.
- Reimbursement by employer of traveling expenses incurred on duty by employees.
- Traveling expenses paid to transport employees from elsewhere to place of employment and to return them upon completion of employment.

## b) Pension Contributions

Permanent employees of an organization, the employees of which are governed by the existing regulations of the Ethiopian public servants are expected to pay or contribute 4% of their basic (monthly) salary to the government pension trust fund. This amount should be withheld by the employer from the basic salary of each employee on every payroll and later be paid to the respective government body.

On the other hand, the employer is also expected to contribute towards the same fund 7 % of the basic salary of every permanent employee of it. It is this total amount we called earlier as payroll taxes expense to the employer organization (i.e., 7 % of the total basic salary of all permanent employee).

Consequently, the total contribution to the pension trust fund of the Ethiopian government is equal to 11 % of the total basic salary of all permanent employees of an organization to be entitled to the pension pay given that the employee has satisfied the minimum requirements to enjoy this benefit when retired.

Non-government organizations are also using this kind of scheme to benefit their employees with some modifications. This is made in some NGO's by keeping a fund known as provident fund. Both the employees and the employer contribute towards this fund monthly. Ultimately, when as employee retired or drawn out of work a lump sum amount is given at once.

## C. Other Deductions

Apart from the above two kinds of deductions from employees earnings, employees may individually authorize additional deductions such as deductions to pay health or life insurance premiums; to repay loans from the employer or credit association; to pay for donations to charitable organization; etc. Each of the major other deductions may be put in special column in the payroll register. Ultimately, the sum of the employees' income tax, pension contributions and other deductions given the total deductions from the gross earnings of employees.

## 5) The Net Pay

This amount is held in one column of the payroll register representing the excess of gross earnings over the total deductions of an employee. The column “Net Pay” total tells the grand total deductions made from the earnings of employees.

## 6) Signature

Unless some other document is used, the payroll sheet may be designed to allow a column for signature of the employees after collection of the net pay. In general, a payroll register should at least show the earnings, deductions and the net pays along with the name of employees.

## Preparing payroll

- calculation of gross pay
- cash analysis
- electronic funds transfer
- net pay
- preparing cheques
- preparing pay advice slips
- taxation and other deductions

## Necessary steps to prepare payroll

Step 1: Establish your employer identification number

Step 2: Collect relevant employee tax information

Step 3: Choose a payroll schedule

Step 4: Calculate gross pay

Step 5: Determine each employee's deductions

Step 6: Calculate net pay, and pay your employees





## 2.2. Reconcile total salary and wages for pay period

### 2.2.1 Payroll reconciliation

Payroll reconciliation is when you compare your payroll register with the amount you're planning to pay out to your employees to confirm those numbers match. The simplest way to think about it is double-checking your math to ensure that you pay your employees correctly. Payroll reconciliation should happen frequently. Each pay period, your payroll needs to balance with the payroll expense account in your ledger. The payroll reconciliation process helps you keep accurate accounting records, which are necessary for tax filing and measuring financial health. You check that the transactions in your books equal the payroll register. When you reconcile payroll, also make sure you recorded the correct amount for each employee. And, look to see if each transaction was recorded in the correct ledger account. Check that all the accounts affected by a paycheck agree with the gross earnings. This includes payroll expenses as well as withholdings and employer liabilities.

#### Payroll reconciliation

There are several things to keep in mind when reconciling payroll to general ledger entries. You should reconcile payroll before submitting payroll and giving employees their checks. It's much harder to fix errors after you pay employees. Reconcile payroll at least two days before payday.

When you reconcile payroll, check that these details are correct:

- Withholdings and deductions
- Employer taxes
- Hours worked, including overtime, vacation time, sick days, etc.
- Wages and salaries

Make sure the numbers you recorded are reasonable. Look at past payrolls to see if the current pay period is similar. If there is a large difference, learn the cause. Then, make sure each

transaction you entered is correct.

## Reconcile payroll

The reconciliation of payroll doesn't have to be difficult for small business owners. Use the following steps to reconcile payroll.

- 1) Print out your payroll register

The payroll register summarizes each employee's wages and deductions for the pay period.

- 2) Match each hourly employee's time card to the pay register

Confirm that you entered the hours for each employee correctly. The hours entered should match the employee's time card. Don't forget to differentiate regular and overtime hours, as well as vacation and sick time.

- 3) Make sure the pay rates and salaries for each employee are correct

Account for overtime pay, double time, and unpaid time that would normally be paid. Also, make sure all pay rates are current, such as if you gave an employee a raise last pay period.

- 4) Check that you took all deductions out of employee paychecks

Make sure any new deductions were taken out, like if you get a wage garnishment for an employee. Also, check if you were supposed to change or stop deducting any amounts.

- 5) Make entries in the general ledger according to your payroll register

You can make one payroll entry that shows the sum of payroll for the period. Here is how you will record debits and credits the general ledger:

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- Record salary and wage costs as a payroll expense with a debit.
- List the total for each type of wage deduction with a credit.
- Add an entry for employer liabilities with a debit.
- Include an entry for employee liabilities with a credit.

Make sure the payroll expenses match entries you made in your books and checks you issued. If the information matches, there are no mistakes with your payroll. After you reconcile payroll, submit payroll and pay your employees.

## Practical Demonstration

**Task 2:** reconcile the following payroll sheet by re-calculating the amount of taxable earning, income tax, pension contribution and net pay with comparing the calculated amount.

Name of Employee	Basic Salary	Over Time	Allowanc	Gross Earni	Taxable Earni	Income Tax	Pension contributi	Credit Associa	Others	Total Deducti	Net payment
Lami Daba	680	51	0	731	731	13.1	47.6	0	0	60.7	670.3
Asnake Tilahun	1800	225	0	2025	2025	161.25	0	0	0	161.25	1863.75
Kassa Endale	1280	0	200	1480	1480	148	89.6	200	0	237.6	1242.4
Tadele Boru	1900	89	300	2289	2289	200.5	133	0	0	333.5	1955.5
Kaku Terefe	2400	375	100	2875	2775	273	168	0	0	441	2434
<b>Total</b>	<b>8060</b>	<b>740</b>	<b>600</b>	<b>9400</b>	<b>9300</b>	<b>795.8</b>	<b>438.2</b>	<b>200</b>	<b>0</b>	<b>1234.05</b>	<b>8165.95</b>

## 2.3. Making arrangement for payment

### 2.3.1 Payroll arrangements

Each organization operates its own payroll system and will continue for the foreseeable future. The line manager will be responsible for ensuring that appropriate salary notifications are completed and forwarded to the appropriate payroll/HR department on the agreed date each month/week. This protocol gives the authority to line managers to discuss payroll issues with either payroll department as appropriate. When a member of staff is recruited they will be placed on the payroll of the employing organization.

Payroll arrangement can be performed based on organizational Legislative and individual requirements. It may be include

- relevant tax laws
- confidentiality and security of records
- Higher Education Contribution Scheme
- Medical care levy
- pension law

Related to Payroll arrangements

- transitional arrangements
- special arrangements fees
- tax arrangements
- business arrangements

- additional arrangements
- financial arrangements
- payment arrangements
- supplemental arrangements

Authorization of payroll and individual pay advance

### **Authorization of payroll and individual pay**

The Payroll Manager / Supervisor should review and authorize the payroll report in advance of payment being made to ensure that any errors, duplicate payments or omissions are corrected. Approvals for paper forms submitted to Payroll are validated using authorizations within the HR Payroll Approver table.

Based upon employee type, any single authorized person within any level is acceptable to validate the payment. A more restrictive authorization policy should be managed within an organizational unit.

Payroll approver authorizations are utilized on the following forms:

- Additional Payment Form
- Special Payment Authorization Form for Support Staff
- Time Record for Hourly Employees Paid by Non-Primary Department
- Off-Cycle Disbursement Request Form

### **Producing, checking and storing payroll records**

- **Payroll checking**

A payroll checking is an analysis of a company's payroll processes to ensure accuracy. Payroll checking examines things like the business's active employees, pay rates, wages, and tax withholdings. You should conduct a payroll checking at least once per year to verify your process is up-to-date and legally compliant. Generally, payroll audits are internal; meaning you or someone in your business conducts them. Performing internal audits can help you catch errors and prevent possible external audits later on. After conducting the review, examine your payroll audit report. If necessary, make changes for future payroll processing. You may also need to retroactively make changes.

- **Benefits of conducting a payroll checking**

So, why should you conduct a payroll checking?

Conducting a payroll checking regularly can help you:

- Prevent payroll fraud by weeding out ghost employees or mismarked time cards
- Catch manual errors made when entering numbers into a system
- Spot calculation mistakes if doing payroll by hand
- Realize you need to factor in a raise
- Remove terminated employees from your payroll
- Verify your tax withholdings are accurate
- Accurately account for paid or unpaid time off
- Compare hours paid to when employees clocked in
- Ensure you are compliant with employment laws

### **Payroll checking procedures**

Use the following steps to get started on your payroll checking process.

#### **1. Look at the employees listed on your payroll**

Review your employees listed on your payroll. Verify that all of these employees worked for you during the time period. If more workers are listed on your payroll than you had working for you, you may have a problem. Some employees commit payroll fraud by adding fake employees to payroll. Or, you may have forgotten to remove a terminated employee from your payroll. Make sure that the list of employees on your payroll matches your employment records. Remove any employees who no longer work for you. You may need to dig deeper to find out why those employees are on your payroll.

## 2. Analyze your numbers

When conducting a payroll checking, you can't avoid analyzing numbers. Running payroll is mostly numbers pay rate, hour's worked, total pay for the period, and withheld taxes are some essential payroll numbers. Examine each employee's pay rate to ensure you paid the worker the correct amount. Make sure the pay rate is up-to-date and matches the employee's record. If you gave the employee a raise or salary reduction, verify that you changed the pay rate on the applicable date. Look into the hours the employee worked. Did they really work those hours during the pay period? Does your payroll system match what's recorded in your time and attendance software? Did you provide overtime pay to nonexempt employees who worked over 40 hours in a workweek?

## 3. Verify time is correctly labeled

Most employers give employees time off from work, with many providing paid time off (PTO). Do you provide time off? If so, make sure you or your employee's properly labeled time when running payroll. That way, you can identify when an employee worked and when they didn't. If you provide a set number of paid times off, subtract it from the employee's available time off. Be sure to label time off as vacation, personal, sick, bereavement leave, or whatever labels you use.

## 4. Reconcile your payroll

Next, look at your payroll. Compare your findings to other records to verify your totals match. If there is a discrepancy, closely examine your records to find out the problem. Compare your payroll records to your business's general ledger. The payroll expenses in your general ledger should match your payroll checking findings. Next, you need to reconcile your payroll records with your bank statements. Compare the amounts listed in your payroll records to what was



withdrawn from your account. Consider having a separate payroll account to make bank reconciliation easier.

## 5. Confirm tax withholdings, remittance, and reports are accurate

Another critical payroll checking procedures step is verifying the accuracy of your employment taxes.

### Payroll Records

Payroll Record can be defined as a list of all the employees of that company in which every information related to the payments made to the employees which they are entitled to receive such as salaries, wages, bonuses, taxes, etc. are recorded so that at every interval there can be a proper track of each payment which are been paid to that employees from the employer's point of view and if a discrepancy takes place then the same could be pointed out easily from the records. Payroll Records constitute anything and everything related to the information about the employees of the company. It depicts the amount for which the employees are getting paid during each period of time. The period of time differs from company to company. It can be daily, weekly, bi-weekly, semi-monthly, monthly, or any period of time, which suits the company's pay period.

### Payroll Record may include the following information's

- The foremost information is gross pay, which is the main in-hand amount shown first before making any deduction from it. Gross pay is calculated by multiplying the hourly pay rate to the number of days worked.
- The next information would be deductions, which are of two types like mandatory deductions and voluntary deductions. There are several taxes like professional tax, provident fund contribution from the employee's portion, etc.

- The last is the net pay, which is the final amount after making all the deduction credited to the employee's account.
- Full employee name, gender, and Social Security number
- Full residence address
- Job role (job title or function)
- Pay type (hourly, salaried, commission)
- Hours worked and pay rate
- Earnings by type (regular, overtime, additional)
- Total net earnings
- Date of payment and work period (pay period)
- Cash analysis sheets
- electronic funds transfer
- employee summary report
- end of month reports
- end of year reports
- pay advice slips
- taxation reports

### Obtain your Payroll Record

An employee can always obtain his/her payroll record by requesting his employer either by writing/orally to provide him with the payroll data. The employer must respond to the personnel's request, and he should give him the details within the prescribed time limit from the date of receiving the request. However, the employer must respond to the employee's payroll record request within generally 21 days.

### Store Payroll Records

In most cases, you have three storage options for payroll records that you need to keep. You can keep the files yourself, box and store the paper files off-site, or maintain the documents and data

electronically. Here are some considerations for paper versus electronic payroll file storage.

### **A. Store Required Payroll Information on Paper Documents Off-Site**

There are storage companies that will maintain your paper documents securely if you don't have room to keep them on-site. The benefit of a secure off-site storage facility is that you don't have to worry about storage space or keeping confidential health information such as leave request forms, from being accessible to staff in violation of law.

### **B. Store Required Payroll Information Electronically**

There are companies like document sign that store electronic data for you. However, you'd need to verify the online data storage account is secure because payroll data contains sensitive information like birth dates, bank accounts, and Social Security numbers.

## **Security procedures for processing and maintaining payroll records**

### **Payroll security**

Security of payroll records and the staff who work with them is a continuing consideration for payroll administrators and corporate management. Payroll security includes implementing and maintaining confidentiality and security of the payroll records, the payroll department and the payroll staff. The payroll manager, accounting manager or human resources manager may carry the responsibility for payroll security in conjunction with senior management. Creating a highly secure and efficiently organized payroll environment should be the goal of every payroll department.

Payroll is a core function of your business, because employees must get paid for the work they do and wage and hour and employment tax laws must be adhered to. It is also a confidential aspect of your business as it involves sensitive information. Implementing and maintaining effective security measures helps your payroll department to run smoothly.

## **Secure Payroll Processing and Prevent Fraud**

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## 1. Keep your payroll software up to date

For those organizations that use automated software to run their payroll processing, the number one thing they need to do is make sure the software is up-to-date. This ensures that their payroll processing has all the latest deployed codes and firewalls to help prevent from devious intent from online thieves outside the organization. Businesses should be working diligently with their IT department to keep up-to-date on the best security practices.

## 2. Provide common sense online security protocol for employees

Failure to secure payroll processing can often be attributed to human error. Employees who practice bad online security practices put themselves and their organization at risk to the following hazards:

- Phishing schemes
- Malware
- Trojan horses
- Spam
- Spyware
- Viruses and more

Human resources, IT, and leadership need to make some decisions on what strategies and company initiatives they perform to help keep payroll processing secure from fraud by putting data security at the forefront of their operations.

### **3. Restrict payroll access diligently**

This one should be simple to implement. Simply allow access to payroll and the sensitive information it holds to the select one or few employees whose job it is to run processing for the organization. You're going to have stakeholders in different departments who may need access to data in payroll; however, everyone needs to be accounted for in this process.

Organizations need to keep an updated list that specifies who has access to payroll. This will allow them to immediately check back on their list easily in the event some payroll shenanigans are afoot in the company.

### **4. Be wary of 3rd parties**

It's normal for internal people or departments to need specific information from the payroll department at various times. However, businesses are always being spammed by 3rd party companies looking to acquire the data they hold.

### **5. Disposal of older documentation**

Businesses need to keep their legal documentation cleaned up and disposed of properly. Even if the information is old, it can still lead a person with fraud on their mind to other places that can harm employees and employer interests.

### **6. Secure your payroll area(s)**

Whether the department is on premise or located on another campus, organizations should be doing the following to their physical space to secure payroll processing:

- Desks should be positioned so computer screens are not facing any windows or doors
- All physical documentation should be locked up at all times when not being used

- The doors to payroll should always be locked with access only allowed to assigned personnel
- For offsite operations, the rules above apply

## Payroll processing

Payroll processing is the act of managing employee payments. It covers everything from inputting an employee into your payroll software to giving them their paychecks. Payroll processing involves calculating employee wages, withholding taxes, tracking employees' number of worked hours, and more.

## Process payroll – step by step

Processing payroll isn't just about compensating your employees.

### 1) Choose a payroll system

There are three basic payroll systems: manual payroll, outsourced payroll, and payroll software.

- Manual payroll** is processed by hand, typically on paper or in a spreadsheet.
- Outsourced payroll** means hiring someone else to take care of everything from payroll taxes to bookkeeping.
- Payroll software** varies by plan or product. Most offer everything from basic payroll assistance to additional payroll services that may include time tracking or even HR services.

Before you commit to one system over another, consider factors like business growth, employee benefits, and the complexity of your state's payroll taxes and laws. The more complicated the components and calculations, the more likely it is you'll want to purchase a payroll software or outsource payroll altogether.

### 2) Create a payroll policy

Before you create a payroll policy, review your local labor laws, state overtime laws, and federal labor laws. Here are some other things to include in your payroll policy:

- Pay dates, including the length of each pay period, and when you pay employees after that.
- How you'll pay employees—by direct deposit or paper check.
- Payroll deductions and withholdings and how the benefits you offer will impact the employee's paycheck.

### 3) Gather employee information

If you have employees, you should also have their W-4s, I-9s, and state withholdings. These documents will give you each employee's personal information, Social Security number, and tax filing status. If your payroll includes things like employee health insurance or retirement savings, you'll need documentation showing the employee has approved additional deductions. Lastly, if you plan to offer direct deposit, now is the time to get employee consent and collect their banking information.

### 4) Set up direct deposit

Direct deposit isn't free, but it's convenient for both employees and their employers, so it's common. As a business owner, you can set up direct deposit through your business's bank directly or your payroll service provider. If your employees have opted for direct deposit, they'll have to give you some information. This includes their bank's name, their account number, their account type (checking or savings), and their bank's routing number. Once you have all that, the next step is to transfer that information to your payroll software or bank.

### 5) Establish a time tracking system

The requires employers to maintain accurate records of work hours for all nonexempt employees. In most cases, "nonexempt" includes hourly employees. One way to maintain those records is to track hours manually and ask employees to write down when they clock in and out. Otherwise,

you might try a time tracking software that holds on to employee timesheet records for you. Either way, you'll want to train employees to track their time as soon as possible.

## **6. Collect employee timesheets**

Congratulations—you've reached the end of the pay period! It's time to run your first payroll, which means it's time to collect employee time cards. If they're paper time cards, you'll need to spend some time adding up the hours, checking for any mistakes, and transcribing the numbers to your payroll records. If the time cards are digital, now is the time to import them to your payroll software. Depending on the product, those timesheets may already be sitting inside your payroll software, waiting for approval.

### **6) Approve and submit employee payroll**

Approval is the most important step when running payroll for hourly employees. This is your chance to make sure all the hours worked make sense, so payroll is accurate. Once you have approved all employee time cards, you're ready to run payroll and issue payments to employees.

### **7) Report and update payroll records**

Once the checks are out the door, it's time to update your payroll records. Those records must show you've withheld federal income, Social Security, and Medicare taxes from employee wages. You also have to show the tax contributions you've made. Choose a payroll schedule Calculate gross pay determine each employee's deductions and Calculate net pay, and pay your employees.



## Operation Sheet 2.1 – Calculating Over Time

Assume that Burayu Boez Factory the Federal Government Tax Authority, pays the salary of its employees during May 30.

The forth-coming data relates to the month of May, 2008.

Employee ID No.	Name of Employee	Basic salary	Overtime hours	Duration of overtime work	Basic salary per hours
01	Martha Feleke	4,800	10	6AM Up to 10	30
02	Alemu Mekonnen	1,920	8	10 PM to 5 AM	12
03	Semia Mohammed	2,160	10	Public Holidays	13.50
04	Selamu Bogale	2,400	6	Weekly rest	15

Additional Information: Management of the factory usually expects a worker to work 40 hours in a week and during May, 2008, all workers have done as they have been expected.

Required: Based on the above information:

Calculate the amount of overtime payment for each employee for the month of May, 2008.

## Operation Sheet 2.2 Preparing payroll

**Instructions:-**Prepare tools and equipment for payroll preparation.

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Computer, hand held calculator, financial calculator software, A4 papers, pen , pencils etc

**Task1:-** list the necessary steps to preparing Payroll sheet.

Step 1: Establish your employer identification number

Step 2: Collect relevant employee tax information

Step 3: Choose a payroll schedule

Step 4: Calculate gross pay

Step 5: Determine each employee's deductions

Step 6: Calculate net pay, and pay your employees

### 2.3. Practical Demonstration

ABC Company pays the salary of its employees according to the Ethiopia calendar of Hidar 2014.

S.No	Name of Employee	Basic Salary	Monthly Allowance	OT hours worked	Duration of OT work	Basic Salary Per Hour
1	Lami Daba	680	----	8	10 P.M. to 5a.m	4.25
2	Asnake Tilahun	1800	---	10	Weekly rest days	11.25
3	Kassa Endale	1280	200	---	-----	---
4	Tadele Boru	1900	300	6	10 P.M to 5 A.M.	11.875
5	Kaku Terefe	2400	100	10	Public Holiday	15

#### Additional information's

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- All employee are permanent except Asnake Tilahun and worked 40 hr per weeks
- The monthly allowance of Kaku Terefe is not taxable; Abdu Mohammed agreed to have a monthly Br. 200 be deducted and paid to the credit association of the agency as a monthly saving.

**Instructions:** show necessary steps and procedures, you are required to perform the following tasks.

**Task1:-**Prepare payroll sheet (register) for the company for the month of Hidar30, 2014.

**Task2:-**Prepare or pass the necessary Journal entries for the month of Hidar, 2014.

## Operation Sheet 2.4.

### Recording Payroll Data

**Instructions:-**Prepare tools and equipment for recording payroll data.

Computer, , A4 papers, pen , pencils, binders , company manuals and guide lines, business commercial codes etc

**Task1:-** list the necessary steps to record payroll data

1. Employee's full name and Social Security number
2. Employee's address and ZIP code
3. Employee's date of birth and legal gender
4. Employee's occupation
5. Time and day of the week when the employee's workweek begins
6. Hours worked each day
7. Total hours worked each workweek
8. Basis of pay (hourly or weekly rate, commission, service-based, or salary)
9. Regular hourly pay rate

10. Total daily or weekly straight-time earnings
11. Total overtime earnings per workweek
12. All deductions made from the employee's wages
13. Total wages (gross and net pay) paid every pay period
14. Pay dates and pay period dates

### Operation Sheet 2.5.

#### Reconcile total salary and wages for pay period

**Task1:-list the necessary steps to reconcile total salary and wages.**

**Step 1:** check payroll register for accuracy

**Step 2:** confirm employee time cards

**Step 3:** double check employee pays rates

**Step 4:** confirm payroll deductions

**Step 5:** record in general ledger

**Step 6:** submit payroll

### Self Check 2

**Directions:** Answer all the questions listed below. If you have to need some clarifications feel-frees to ask your trainer.

1. What is an employee pay period detail? (2 points)

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2. List at least 5 employee Pay period details. (3 points)

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3. What is employee deduction and allowance? Give 4 examples for each.(6 points)

4. What is payment due? ( 5 points) ?

5. How to calculate employee payment due? ( 5 points)

6. What is the difference between salary and wage? (3 points)

7. What is the difference between payroll tax and withholding tax? (4 points)

8. what is payroll sheet?

9. What is payroll reconciliation? (3 points)

10. How to reconcile payroll? (5points )

11. What is the benefit of payroll reconciliation? ( 5 points)

## CHAPTER THREE: HANDLING PAYROLL ENQUIRIES

This guide will also assist you to attain the learning outcome stated in the cover page. Specifically, upon completion of this Learning Guide, you will be able to –

- Responding to payroll enquiries
- Providing payroll information
- Ensuring all payroll enquiries

This learning guide is developed to provide you the necessary information regarding the following content coverage and topics-

- Respond to payroll enquiries
- Provide payroll information
- Ensure all payroll enquiries

### 3.1 Responding to Payroll Enquiries

#### 3.1.1. Payroll enquiries

Enquiries regarding pay-related matters might come from current or ex-employees or from outside parties such as an employee's superannuation or health fund.

#### Responding and Ensuring Payroll Enquiries

The type of queries received from employees regarding their payments will depend on the nature and size of the organization. Enquiries may be made in person, by email, fax, face to face,

telephone or mail. Some organizations let their employees access their pay information on the organizations intranet.

No matter what the source and nature of the enquiry, you or your staff need to:

- respond in an informed and positive manner
- maintain a professional and confidential approach at all times
- comply with privacy legislation
- have a clear understanding of your level of authority
- Know when to forward an enquiry.

Knowing where to find information is a key component in being able to respond to enquiries. The first source of information should always be your organization's policies and procedures.

### **Payroll enquiries procedures**

1. Understand organizations payroll data
2. Be aware of privacy and confidentiality issues
3. Record the enquiry-records may need to be produced in formal enquiries. You can make records in a number of ways.
  - Emails- reply to the email and print response and put in employee record.
  - Phone call- writes notes while writing and may be confirm this in an email.
  - Personal-write notes and confirm in an email.
4. Refer Enquiry- refer to correct personal, line manager, HR department, etc
5. Follow up payroll enquiry - these may include; refer matter to appropriate person, seek further relevant documentation, research a similar situation
  - relevant tax laws
  - confidentiality and security of records
  - Higher Education Contribution Scheme
  - Medical care levy
  - Pension law

### 3.2. Providing payroll information

Payroll register should at least show the earnings, deductions and the net pays along with the names of employees.

1. Gathering the necessary Data: All the relevant information about every employee should be gathered. This activity requires reviewing various documents and to do some arithmetic work.
2. Including the names of employees along with the gathered data such as earnings, deductions and net pays in the appropriate columns of the payroll register.
3. Totaling and proving the payroll register: It must be proved that the grand total earning equal the sum of the grand totals of deductions and net pays in the register.
4. The accuracy and authenticity of the information summarized in the payroll should be verified by a different person from the one who compiles it.
5. The payroll is approved by the authorized personnel.
6. Paying the payroll either in cash (this may be after cashing a check issued for the total net pay of the payroll) or issuing a check for every individual employee for the net amount payable to each employee.
7. Recording the payment of the payroll and recognition of the withholding tax liabilities.
8. Recording the payroll taxes expense of the employer.
9. Paying and recording withholding and payroll tax liabilities to the concerned authority, in our case to Inland Revenue Administration, on time.



S/No.	Name of Employee	Basic Salary	Monthly Allowance	OT Hours Worked	Duration of OT Work	Basic Salary Per hour
1	Lami Daba	2080	100	10	Up to 10 pm	13
2	Asnake Tilahun	640	---	8	10 pm to 5 am	4
3	Kassa Endale	1280	---	6	<b>Weekly Rest</b>	8

## DEMONSTRATION PROBLEM

					Days	
4	Tadele Boru	5,600	50	---	----	35
5	Kaku Terefe	11,200	50	10	Public Holiday	70

ABC Company pays the salary of its employees according to the Ethiopian Calendar month. The forth-coming data relates to the month of Hidar, 2013.

- Note that management of the agency usually expects a worker to work 40 hours in a week and during Hidar 2013 all workers have done as they have been expected. Besides, all workers of this agency are permanent employees except Asnake Tilahun; the monthly allowance of Kaku Terefe is not taxable; Kassa Endale agreed to have a monthly Br. 200 be deducted and paid to the Credit Association of the Agency as a monthly saving.

## INSTRUCTIONS: -

Based on the information given above:

- Prepare a payroll register (or sheet) for the agency for the month of Hidar, 2013.
- Record the payment of salary as of Hidar 30, 2013 using CK. No 41 as a source document.
- Record the payroll taxes expense for the month of Hidar, 2013.
- Record the payment of the claim of the Credit Association of the agency that arose from Hidar's payroll assuming that the payment was made on Tahesas 1, 2013.
- Assuming that the withholding and payroll taxes for the month of Hidar, 2013 have been

paid on Tahesas 5, 2013 via CK. No. 50, recorded the required journal entry.

### Computations of Earnings: - Overtime Earnings, Deductions and Net Pays: -

**Overtime Earning = (OT Hrs worked) x (ordinary hourly rate x OT Rate)**

1. Lami Daba: (10hrs) (13) (1.25) = Br. 162.50
2. Asnake Tilahun: (8 hrs) (Br. 4) (1.5) = Br. 48
3. Kassa Endale (6hrs) (Br. 8) (2) = Br. 96
4. Kaku Terefe (10hrs) (Br. 3) (2.5) = Br. 1,750

### Gross Earnings

**Gross Earnings = Basic salary + Allowance + OT Earnings**

1. Lami Daba:  
Br. 2080 + 100 + 162.50 = Br. 2342.50
2. Asnake Tilahun:  
Br. 640 + 0 + 48 = Br. 688.
3. Kassa Endale:  
Br. 1280 + 0 + 96 = Br. 1376
4. Tadale Boru:  
Br. 5600 + 50 + 0 = Br.5,650
5. Kaku Terefe  
Br. 11,200 + 50 + 1,750 = Br. 13,000

### DEDUCTIONS AND NET PAYS

1. Lami Daba:  
Gross taxable income ..... Br. 2342. 50  
Employee Income Tax:  
Earnings x ITR=IT  
600.00 X 0 = 00.00

1050.00 X10 105.00  
692.50 X15 103.88  
 Total 2342.50 208.88

Pension Contribution:

Basic Salary x 7%

Br. 2080 x7% ..... 145.60

Total Deductions ..... Br 354.48

Net Pay .....-.....Br. 1988.02

2. Asnake Tilahun:

Gross taxable income .....BR. 688.00

Employee Income Tax:

Earning X ITR =IT

600 X0 00.00

88 X10 8.80

Tot. 688 8.80

Pension Contribution .....00.00 (**contractual employee**)

Tot. Deductions..... 8.80

Net Pay.....Br. 679.20

3. Kassa Endale:

Gross taxable income.....-.....Br. 1376.00

Employee Income Tax:

Earning X ITR = IT

600 X 0 00.00

776X 10 77.60

Tot. Br 1376 Br. 77.60

Pension Contribution:

Br1280 X 7%..... 89.60

Credit Association pays.....200.00

Total Deductions ..... 367.20

Net

Pay.....1,008.80

4. Tadale Boru :

GROSS TAXABLE INCOME..... Br. 5,650.00

Employee Income Tax:

Earning	X	ITR	=	IT
600	X0			00.00
1050	X10			105.00
1550	X 15			232.50
2050	*20			410.00
<u>400</u>	<u>*25</u>			<u>100.00</u>

Tot Br. 5,650 847.50

Pension Contribution:

Br 5,600 \* 7%.....392

Total Deductions .....Br. 1,239.50

Net pay ..... Br. 4,410.50

1. Kaku Terefe :

Gross taxable income (**his allowance is not subject to tax**)

Br. 13,000 - 50 = Br. 12,950 ..... Br. 12,950

Employee Income Tax:

Earning X ITR = IT

600X0	00.00
1050 X10	105.00
1550X 15	232.50
2050*20	410.00
2550*25	637.50
3400*30	1020.00
<u>1,750*35</u>	<u>612.50</u>

Total 12,950 3,017.50

Pension Cont. Br. 11,200 X7%.....784.00

Total Deductions .....Br 3,801.50

Net pay .....Br. 9198.50 (+50)

**ITR = Income Tax Rate**

**IT= Income Tax**

**1. proving the payroll:**

Total Earnings:

Basic Salary .....	Br. 20,800.00
Allowance .....	200.00
Overtime .....	<u>2,056.50</u>
Grand total earnings.....	<u>23,056.50</u>

**Deductions:**

Employee Income tax Br. 4,160.28

Pension Cont. ....1114.20

Others .....200.00

Total Deductions..... **5771.48**

Net Pays (total)..... -----17,285.02

### 1. Prepare a payroll register (or sheet) for the agency for the month of Hidar. 2013

S/No.	Name of Employee	Basic Salary	Monthly Allowance	OT	Gross Earning	Deduction	Net pay	Sign.
1	Lami Daba	2,080	100	162.50	2342. 50	354.48	1988.02	✓
2	Asnake Tilahun	640	--	48	688.00	8.80	679.20	✓
3	Kassa Endale	1,280	--	96	1376.00	367.20	1008.80	✓
4	Tadele Boru	5,600	50	--	5,650.00	1,239.50	4410.50	✓
5	Kaku Terefe	11,200	50	1,750	13,000/12,950 taxable/	3,081.50	9198.50	✓
		<b><u>20,800.00</u></b>	<b><u>200.00</u></b>	<b><u>2,056.50</u></b>	<b><u>23,056.50</u></b>	<b><u>5,771.48</u></b>	<b><u>17,285.02</u></b>	

### 3.3. Ensuring all payroll enquiries

Payroll enquiries are responded to in accordance with organizational and legislative requirements Information is provided in accordance with organizational and legislative requirements

Enquiries outside area of responsibility/knowledge are referred to designated person/s for resolution

Additional information or follow-up action is completed within designated timelines in accordance with organizational policies and procedures Maintain payroll

All information and record keeping relating to the payroll function is maintained in accordance with relevant legislation and regulations Knowledge and application of legislative requirements is met

Month-end and year-end checklists are produced and reconciled to ensure compliance with relevant legislative and management deadlines

The records maintained by the employer about the number of hours worked ,salaries and wages, bonuses and commissions, health and pension plans, sick pay and pension pay and finally deductions on the payroll for all the employees are called payroll records.

Three different records related to payroll and the retention schedule General employment records must include all of the following:

- The employer's name
- The employee's name
- The employee's commencement date
- The basis of the employee's employment  
(full or part-time and permanent, temporary or casual).

Records of pay must include all of the following:

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The rate of pay paid to the employee

- The gross and net amounts paid and any deductions from the gross amount
- The details of any incentive-based payment, bonus, loading, penalty rate, or other monetary allowance or separately identifiable entitlement paid.


Records relating to hours worked by employees are to include the following:

- In the case of a casual or irregular part-time employee who is guaranteed a pay rate set by reference to time worked, a record of the hours worked by that employee
- For any other type of employee, the record must specify the number of overtime hours worked each day, or when the employee started and finished working overtime hours (but only if a penalty rate or loading must be paid for overtime hours actually worked) copy of the written agreement if the employer and employee have agreed to an averaging of the employee's work hours

Ensuring payroll enquiries



**Tax withholding forms**




- Form W-4
- State W-4 form

- Other withholding forms

**Time and attendance records**

- Time cards
- Total hours worked each day and week
- Time and day when work week begins
- Time off history
- Remaining time off





For each employee, payroll records<sup>1</sup> should include:

- Name and occupation.
- Address.
- Social Security number.
- Day and time when an employee's workweek began.
- Number of hours worked each day and workweek.
- The basis on which the employee's wages were paid.
- Regular hourly pay rate.
- Total daily or weekly straight-time earnings.

These may include; refer matter to appropriate person, seek further relevant documentation, research a similar situation

- relevant tax laws
- confidentiality and security of records
- Higher Education Contribution Scheme

- Medical care levy
- Pension law

### Self-check of unit three

**Directions:** Answer all the questions listed below. If you have to need some clarifications feel-frees to ask your trainer.

1. What is payroll security? ( 2 points)

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2. How to Obtain your Payroll Record? ( 3 points)

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3. How to Secure Payroll Processing and Prevent Fraud ( 5 points)

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### Operation Sheet 3

1. An employee earns Br. 50 per hour with one and quarter (1 ¼) times than regular hourly rate for all hours in excess of 40 per week. If the employee worked 50 hours during the current week, what was the gross earnings for the week?
2. What is the total amount deducted as income tax for an employee who earns a basic monthly salary of Br. 1800, a monthly non taxable allowance of Br.300, and an overtime earning of Br. 400?
3. What is the employer share of pension contributions for a government permanent employee whose regular monthly salary of Br. 2400?
4. Assume an employee's regular hourly pay is Br.16, with a time and a half for every hour

worked in excess of 48 during a week. The following data are available:

Hours worked during current month	Br. 200
Regular monthly salary	Br. 3072
Allowance (transportation)	Br. 300

Assume that according to company policy transportation allowance in excess of Br. 200 is subject to employment income tax.

Based on the above data, compute the amount of the employee's

- I. Net pay for the current month
  - II. Employment income tax
  - III. Total deductions, assuming the employee is permanent civil servant.
5. Rehobot is a government agency recently organized to rehabilitate street children. It has five employees whose salaries are paid according to the Ethiopian calendar month. The following data relates to the month of May,2006.

S.No	Name of Employee	Basic Salary	Transp. Allow.	Overtime Worked(hr)	Duration of overtime work
1	Jinenus Ayansa	Br.730	Br.200	4	6:00-10:00Pm
2	Naol Chala	Br.1020	-----	8	Sunday(8:30-5:30)
3	Obsan Darban	Br. 5300	-----	-----	-----
4	Bekan Hunde	Br. 1470	-----	-----	-----
5	Olan Fayisa	Br.950	-----	6	Public Holiday

#### Additional Information

1. The mgt of the agency usually expects a worker 40 hours in a week and during may there are four weeks.
2. There were no absentees during the month
3. All employees are permanent except Bekan Hunde and Olan Fayisa
4. Naol agreed to contribute monthly Br.300 from his salary as a monthly saving in the credit association of the agency.

### Required

1. Prepare Payroll register (sheet) for the agency for the month of May,2013.
  2. Record the payment of salary as of may 30, 2013 using check stub No.0123.
  3. Record the payment of the claim of the credit Association of their agency on May 1,2013 use check stub No.0124.
  4. Record the payment of the withholding taxes and pension contribution to the concerned government body on may 7,2013.
  5. Compute and recognize the total payroll tax expense for the month of May,2013.
- Computation of Earnings, Deductions and Net pay

**Gross Earning=Basic Salary + Allowance + Overtime Earning**

### 4. Practical Demonstration

The following data are taken from ABC Textile Plc for the month of Hidar, 2013:

Employee's Name	Basic Salary	Over Time		Allowance
Gadisa Hunde	17410	no		3000/position and 2000/House
Jemal Kasahun	2500	12hrs	Public Holiday	
Hagos Ahimed	8484	12hrs	Evening	40% of Basic Salary/Hard Ship
		10hrs	Night	
Obang Ujulu	4616	18hrs	Weekend	

Additional Information:

1. All Employees are permanent and all worked 40 hours per week.
2. During Sane, 2011 E.C all workers have done as they have been expected.
3. Obang Ujulu monthly pay Br 1100.00 from his salary for Credit Association.
4. Assuming that pension contribution 7% from Employee and 11% from Employer.

Required:

1. Prepare Payroll Register Sheet.
2. Prepare necessary journal entry for preparation of payroll and payments of deductions to concern

## Chapter Four: Maintaining payroll

This learning guide is developed to provide you the necessary information regarding the following content coverage and topics:

- Maintaining information and record keeping
- Producing and reconciling month-end and year-end checklist
- Updating records and systems in line with salary reviews.
- Payroll Reports & Putt back-up and disaster recovery systems.

This guide will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to:

- Maintain information and record keep
- Produce and reconcile month-end and year-end checklist
- Update records and systems in line with salary reviews.
- Payroll reports
- Payroll Reports & Putt back-up and disaster recovery systems.

### 4.1. Maintaining information and record keeping

Gathering the necessary Data: All the relevant information about every employee should be gathered. This activity requires reviewing various documents and to do some arithmetic work.

- Including the names of employees along with the gathered data such as earnings, deductions and net pays in the appropriate columns of the payroll register.
- Totaling and proving the payroll register: It must be proved that the grand total earning equal the sum of the grand totals of deductions and net pays in the register.
- The accuracy and authenticity of the information summarized in the payroll should be verified by a different person from the one who compiles it.

- The payroll is approved by the authorized personnel.
- Paying the payroll either in cash (this may be after cashing a check issued for the total net pay of the payroll) or issuing a check for every individual employee for the net amount payable to each employee.
- Recording the payment of the payroll and recognition of the withholding tax liabilities.
- Recording the payroll taxes expense of the employer.
- Paying and recording withholding and payroll tax liabilities to the concerned authority, in our case to Inland Revenue Administration, on time.

### Revising Employee Information

After you add an employee record, you can change, correct, or update the employee's information as necessary. For example, when an employee receives a promotion, you might need to update the employee's salary, job type, and pay grade.

You can enter changes that take effect either immediately or on a future date. You can also enter changes that apply to a group of employees.

You can change employee information at any time. Typical changes include:

- Promotions
- Raises
- Leaves of absence
- Transfers

You can enter rate changes by setting up planned increases for an individual employee and specifying effective dates for those increases.

You enter future changes to specify that a change to a data item for an individual employee takes effect on a future date.

You process mass changes to specify new data for a selected data item for a group of employees.



## 4.2. Produce and reconcile month-end and year-end checklist

Payroll reconciliation is the process of verifying that the records and information supporting a company's employee compensation is accurate. In general, reconciliation describes the accounting process that compares two records of the same financial activity to ensure that they match.

Reviewing account activity/reconciling are a vital part of ensuring accurate and appropriate expenditures and revenues. Reconciliations are a comparison of transaction documentation (i.e. cash reports, GL transfers, invoices, timesheets, etc.)

### Payroll reconciliation

- Step 1: Review your payroll register for accuracy
- Step 2: Check pay rates & salaries.
- Step 3: Double-check hours entered.
- Step 4: Make sure deductions are correct.
- Step 5: Complete general ledger entries.
- Step 6: Run a payroll tax report and remit taxes due.

Reconciliation Procedures Signatory officers are ultimately responsible for all activity on accounts for which they have signatory authority. The below procedures are recommended for reconciling departmental accounts:

1. Account activity must be reconciled at least monthly to ensure transactions are appropriate and accurate. In order to obtain the information needed for monthly reconciliations, run the following reports from Tableau: a. Budget, expenditures, and available budget (i.e. budget to actual).
2. In addition to ensuring the completeness, accuracy, and appropriateness of revenues and expenditures being reported
3. The reconciliation process should also include a comparison of actual revenues and expenditures to budgeted revenues and expenditures to ensure that overspending does not occur. Detailed instructions on how to run this report are included below.
4. Revenue and expenditure line item detail. To ensure the completeness, accuracy, and appropriateness (i.e. in compliance with policies and any external agency requirements)

of revenues and expenditures being reported, revenue and expenditure detail must be reviewed.

**Specifically:**

- i. Each expenditure should be reconciled to purchase documentation (i.e. receipts/invoices included with procurement card purchases, Request for Payments, GL documents/transfers, invoices related to purchase requisitions, etc.) to ensure all expenditures are correct.
  - ii. Each revenue item should be reconciled to deposit documentation (i.e. cash reports, credit card transactions, GL documents/transfers, etc.) to ensure all deposits have posted to your account.
  - iii. Notes regarding exceptions, resolutions, follow-up requirements, etc. may be made on the reconciliation. Detailed instructions on how to run this report are included below.
5. Detailed payroll expenditures. Because the detailed revenue and expenditure report (see b. above) only includes totals for payroll entries and does not include specific employee names and totals by employee, you must also review detailed payroll expenditures that are charged to your account to ensure accuracy. Detailed instructions on how to run this report are included.

### **4.3. Updating records and systems in line with salary reviews.**

Payroll can be processed, you need to get all the data together from sources such as attendance register, conveyance facility availed record, data from HR team like salary revision information, etc., making it a complicated process. For many years HR and payroll officers were managing payroll on excel sheets, but excel sheets have problems like dependency on excel formulas for salary calculation, complexity in adding and removing employees and other limitations like manual data entry, difficulty in extracting information, etc.

#### **Methods Available to do Payroll for your Business**

The possible options for running payroll can be

- Excel based payroll management

- Payroll outsourcing
- Using payroll software

### **Excel based Payroll Management**

- High chances of clerical and mathematical errors as data is entered manually
- Difficulty in adding and removing employees from payroll list
- Chances of duplicate data and omission of entries at times
- Need to monitor tax updates and other statutory changes like etc

Spreadsheets for payroll management

### **Payroll Outsourcing**

Outsourcing payroll means you want an external agency to take care of your payroll function. Many organizations that do not have a dedicated person for payroll go for this option.

### **Payroll Software**

As discussed above, for running successful payroll, you need to ensure that payroll inputs are coming from every source in a timely and seamless manner. The intent of using software is to reduce the friction in getting the inputs. There is advanced payroll management software available in the market that not only automates payroll computation but also serve as a holistic leave and attendance management, HR management and employee self-service portal. Depending on the size of your business and use cases you can opt for appropriate payroll software for your business.

### **Best Payroll Software for your Organization**

The move from manual payroll system to automated one can save a lot of time. It not only helps in faster and accurate payroll processing but also keeps the employees, management and regulatory bodies happy.

There are some features that you should consider while selecting payroll management software.

- Ease of Operation
- Scalability
- Employee Self-Service Module
- Time Management and Attendance

## Integration with the Accounting System

Record every financial transaction including payroll information like department wise employee cost, individual payroll components like reimbursements, tax due and paid, etc. Some payroll solution have integration with accounting software via( a way to push data directly from one software to another).

**A personnel record should be kept for every employee containing particulars such as:**

### Letter of Employment

Letter of employment is a written agreement (contract) between the employer and the employee which defines date of employment, salary rate, job title (position), and regular working hours (duration), number of hours to be worked per week, duties, responsibility, accountability etc.

### Letter of Promotion

An employee may be granted a pay increase in appreciation of the employee's contribution or assignment to higher position. Letter of promotion is source document to increase an employee's basic pay in the payroll register.

### Letter of Demotion

Letter of demotion is a letter that shows a negative evaluation of an employee's performance. A letter of demotion implies that the employee is not capable to discharge duties assigned to the employee. As a result, the employee will be assigned to a lower position. Letter of demotion is a source document to decrease the employee's basic pay in the payroll register.

### Letter of Salary Increment

Salary increments are given to employees when the overall result of operation is in line with company plan. The achievement could be in terms of **volume of production, sales plan, profitability** etc. Salary increments may also be given to adjust for costs of living or to cover decrease in the purchasing power of money due to inflation.

Letter of increment is a source document to increase employee's basic pay in the payroll. Letter of increment does not result in changes of position or assignment.

## Attendance Sheet

When the numbers of employees are relatively few, the firm may use an attendance sheet. Attendance sheet is format where employees are required to sign when they report to work.

At the end of each pay period summary of the time sheet is submitted to finance, payroll unit. The time sheet shows the number of regular working hours (days) worked, absence days and extra hours worked.

- **Time card:**-time cards are used when the number of employees is relatively large. Time clocks imprint arrival and departure time of employees on a time card.
- When time clock is used each employee's card is kept in a rack beside a time clock.
- **Ringin- in:** - up on arrival each employee inserts his card in the time clock slot to imprint arrival time.
- **Ringin-out:** - up on departure each employee inserts his card in the time clock slot to imprint departure time.
- **Note:** - adequate control mechanism should be installed to monitor employees from ringin-in absent/late collages time card.

## 4.4. Payroll reports and Putt back-up recovery systems

A payroll report is a document that employers use to verify their tax liabilities or cross-check financial data. It may include such information as pay rates, hours worked, overtime accrued, taxes withheld from wages, employer tax contributions, vacation balances and more.

We can understand the workload you go through while managing your monthly payroll reports. That is why we have tried to covers as many designs as you may need with a different style of frames. If you need a template to structure your monthly payroll audit report this template might help you to structure that. You can also refer to our templates on Word payroll which might give you more ideas.

### Type of payroll reports

Payroll reports go by many names, depending upon the payroll provider and any customizations made to meet an employer's individual reporting needs. Some of the more common types include:

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- Payroll summary reports
- Payroll tax liability reports
- Employee summaries
- Retirement contributions
- Paid time off
- Workers' compensation
- Payroll service charges

#### 4.4.1. Data backup and recovery system

A modern data backup system is one of the most important safety elements of a computer or server, whether it is related to your job or leisure.

**Backup and recovery system is capable of offering a lot of different advantages**

- Better productivity for employees
- Protection against ransomware.
- Longer history and archives
- Less stress in general
- No data loss
- Easier auditor satisfaction

#### Disaster recovery

Disaster recovery (or DR) in IT is a significant part of security planning as a whole. It is a set of procedures and policies that are supposed to protect your business in case of some sort of negative event, be it cyber threats, natural disasters, building failures, device failures, and so on. Since there are many different measures that can fall under the disaster recovery as a whole, it's possible to find out three main categories of measures that can be used:

- *Detective* – used to detect and discover various negative events;
- *Corrective* – tasked with correcting errors that have been caused by negative events or disasters;
- *Preventive* – aimed at preventing negative events in the first place.

## Recovery Point Objective and Recovery Time Objective

Keep in mind that if your data is constantly changing, and if you experience some sort of hardware or software failures that result in you losing your data – you will only be able to recover that data as it was at the moment of the last backup process. This time period between subsequent backups is called Recovery Point Objective (RPO), and it signifies the amount of work and data you are prepared to give up in the case of data loss.

## Backup management

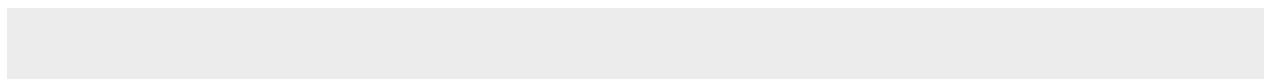
Another important factor that should be kept in mind when it comes to choosing a backup solution for you is backup management.

Backup management can be surprisingly costly, so it's always useful to keep it in mind when calculating your expenses. Some of the most popular backup management features are:

- Backup verification;
- Compatibility with other apps;
- Routine task automation;
- Retention based on custom policy, and so on.

A good backup solution means you can sleep at night and helps you quickly get back to being productive in case of failure. Try to find an approach that will suit your needs and offers the best way for storing your valuable data. Devoting some time to determine the best backup approach that suits your needs may not be attractive, but it is necessary to protect yourself and your business. Always back up your data!

While the task of choosing the correct backup solution for yourself might seem overwhelming at first, you can always refer to our article about best backup software in 2022, in which we provide more information about what to look for in your backup solution, and also present some examples of qualified backup solutions on the market.



## Disaster Recovery

Disaster recovery (or DR) in IT is a significant part of security planning as a whole. It is a set of procedures and policies that are supposed to protect your business in case of some sort of negative event, be it cyber threats, natural disasters, building failures, device failures, and so on.

The entire point of disaster recovery is to help you with recovering from a negative event as fast as possible to preserve business continuity. It does take a large number of processes as a prerequisite, such as risk assessment, business impact analysis, and so on. That way, you can identify specific IT services that can be used to support the most important parts of your business. You can use our white paper to learn more about how to implement a successful DR strategy.

Since there are many different measures that can fall under the disaster recovery as a whole, it's possible to find out three main categories of measures that can be used:

- *Detective* – used to detect and discover various negative events;
- *Corrective* – tasked with correcting errors that have been caused by negative events or disasters
- *Preventive* – aimed at preventing negative events in the first place.

The point of a disaster recovery plan is to keep business continuity no matter what kind of event affects you. That's why it's also important to check on your disaster recovery strategy on a regular basis, and improve it whenever you can so that you can be sure your company is not destroyed by a single problematic situation.



## Self-Check-unit . 4

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1. Why is My Take-Home Pay Different Than My Annual Salary?

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2. Why is My Take-Home Pay Different Than My Annual Salary?

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3. What's the Difference Between Overtime and Holiday Pay?

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5. What's the Difference Between an Exempt and Nonexempt Employee?

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6. What Do the Withholdings on My Paycheck Mean?

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## 5. Practical Demonstration on payroll Process

ABC Company pays the salary of its employees according to the Ethiopian Calendar month. The forth-coming data relates to the month of Hidar, 2013.

S/No.	Name of Employee	Basic Salary	Monthly Allowance	OT Hours Worked	Duration of OT Work	Basic Salary Per hour
1	Lami Daba	2080	100	10	Up to 10 pm	13
2	Asnake Tilahun	640	---	8	10 pm to 5 am	4
3	Kassa Endale	1280	---	6	<b>Weekly Rest Days</b>	8
4	Tadele Boru	5,600	50	---	----	35
5	Kaku Terefe	11,200	50	10	Public Holiday	70

Note that management of the agency usually expects a worker to work 40 hours in a week and during Hidar 2013 all workers have done as they have been expected. Besides, all workers of this agency are permanent employees except Asnake Tilahun ; the monthly allowance of Kaku Terefe is not taxable; Kassa Endale agreed to have a monthly Br. 200 be deducted and paid to the Credit Association of the Agency as a monthly saving.

## INSTRUCTIONS: -

Based on the information given above:

6. Prepare a payroll register (or sheet) for the agency for the month of Hidar, 2013.
7. Record the payment of salary as of Hidar 30, 2013 using CK. No 41 as a source document.
8. Record the payroll taxes expense for the month of Hidar, 2013.
9. Record the payment of the claim of the Credit Association of the agency that arose from Hidar's payroll assuming that the payment was made on Tahesas 1, 2013.
10. Assuming that the withholding and payroll taxes for the month of Hidar, 2013 have been paid on Tahesas 5, 2013 via CK. No. 50, recorded the required journal entry.

1. Prepare a payroll register (or sheet) for the agency for the month of Hidar, 2013.

S/No	Name of Employee	Basic Salary	Monthly Allowance	OT	Gross Earning	Deduction	Net pay	Sign.
1	Lami Daba	2,080	100	162.50	2342. 50	354.48	1988.02	✓
2	Asnake Tilahun	640	--	48	688.00	8.80	679.20	✓
3	Kassa Endale	1,280	--	96	1376.00	367.20	1008.80	✓
4	Tadele Boru	5,600	50	--	5,650.00	1,239.50	4410.50	✓
5	Kaku Terefe	11,200	50	1,750	13,000/12,950 taxable/	3,081.50	9198.50	✓
		<u>20,800.00</u>	<u>200.00</u>	<u>2,056.50</u>	<u>23,056.50</u>	<u>5,771.48</u>	<u>17,285.02</u>	

**Prepared By**

Name \_\_\_\_\_

Position \_\_\_\_\_

Signature \_\_\_\_\_

**Approved By**

Name \_\_\_\_\_

Position \_\_\_\_\_

Signature \_\_\_\_\_

## 2. Recording the payment of salary

Hidar 30. Salary Expense.....	23,056.50
Employee income tax payable .....	4160.28
Pension Cont. Payable.....	1411.20
Payable to Credit Association.....	200.00
Cash.....	17285.02

## 3. ABC Company incurred payroll tax expense of Br. 528 during Hidar 2013.

This is because the company has to contribute 11% of the basic salary of every permanent employee to the government pension trust fund. Thus,

$$\begin{aligned}
 \text{Payroll tax expense} &= \text{Total basic salary of all permanent employees multiplied by 11\%} \\
 &= (2080 + 1280 + 5600 + 11200) \times 11\% \\
 &= \underline{\text{Br. 2,217.60}}
 \end{aligned}$$

By the amount of Br. 2217.60, the company's expense, pension contribution expense, and pension contributions payable accounts increase. Therefore, the following journal entry is made as of Hidar 30, 2013

Pension contribution expense.....	2,217.60
Pension cont. payable.....	2,217.60
Memo. 10	

The source document is an interoffice memorandum that indicates the incurrence of this expense and labor law or proclamation that requires the employer to make the contributions.

## 4. Recording the payment of deduction from Abdu's earnings to the credit association

Payable to Credit Association.....	200
Cash .....	200

CK. No. 42

## 5. Recording the payment of withholding and payroll taxes to the Inland Revenue Administration of Tahessas 6, 2013:

- ✓ Look at the account balances before payment.

Employee Income	Pension Cont.
Tax payable	Payable
4,160.28(2)	1,411.20(2)
	2,217.60(3)
	3,628.80

From the above accounts, you can see that the company has a total liability of Br. 7,789.08 that is:

Employee Income Tax ..... Br. 4,160.28

Pension cont..... 3,628.80

Total..... Br. 7,789.08

Note also that the total pension contribution payable is equal to 18% of the basic salary of all permanent employees. That is: Br. 20,160.00 X 18% = Br. 3,628.80

Then, the payment is recorded as follows:

Employees Income Tax Payable.....4,160.28

Pension Contribution payable .....3,628.80

Cash..... 7,789.08

After the payment of these liabilities have been posted, the above two accounts will have zero balances.

## 1. Practical Demonstration

RAL Company has 10 employees. The pay period of the company is a month. The payroll clerk has contained the following information for the month of Sene, 2013.

Employee Name	Basic Salary	Overtime (Br)	Allowance (Br)
1. Ahmed Ali	1500	-	-
2. Azeb Mengesha	3400	50	-
3. Belay Neger	6670	180	500
4. Mustefa Hussein	1200	60	-
5. Fakiha Nuri	8900	120	1000
6. Eskedar Molla	650	75	-
7. Fekadu Zewdie	895	-	500
8. Ziyad Abdellah	550	-	1000
9. Solomon Sheger	15000	75	700
10. Hoden Kemal	7500	70	-

Additional Information:

[a] The payroll register of RAL Co. more or less is the same as the payroll register shown in the illustration. The deduction columns are the following: Income tax, Idir fund, Union fees, Pension fund and total deductions.

[b] All employees are to pay Idir fees of:

(1) Birr 2 for all employees whose basis salary is up to Birr 500.00.

(2) Birr 3 for all employees whose basic salary is above Birr 500.00

[c] All employees are required to pay Union fees of 1% of their basic salaries (assume that all employees are members of the Labor Union).

[d] Ato Belay Nega, W/t Fakiha Nuri, Ato Fekadu Zewdie and W/ro Hoden Kemal contribute 5% of their basic salaries to the Credit Association of the Company.

## INSTRUCTIONS

1. Prepare the payroll register
2. Prepare a journal entry to record the salary expense for the month of Sene 1998
3. Prepare journal entries to record the payments of amounts withheld to the concerned authorities

## 4. Practical Demonstration

Illustration: Assume the following payroll register is a non- Governmental organization.

S/N	Name of Employee	Earnings						Deductions				Signature
		Basic salary	Overtime	Position	Allowance	Provident Fund	Gross earnings	Employment income tax	Provident Fund	Total deduction	Net pay	
E001	Lema	\$27,000		Manager	600							
E002	Hawi Bira	\$8,750		Secretary								
E003	Sena	\$12,000		Expert	500							
E004	Bona Jiru	\$13,200		Lawyer	400							
E005	Kiya Tola	\$6,000		Guard								
E006	Abdi Boru	\$13,500	200	Driver								
E007	Sifan Leta	\$9,750		Technician								
E008	Hana	\$9,750		Supervisor	600							
E009	Lemi	\$12,750	400	Accountant								
E010	Lamesa	\$13,500	500	Auditor								
E011	Marga	\$8,500	100	Electrician								
E012	Leta Tulu	\$7,000		Driver								

## Additional Information

Amount of provident fund—is 10% from the employees' organization and 5% is reduced from the employee's basic salary.

## References

- Chasteen L.G., et al., Intermediate Accounting, 6<sup>th</sup> ed., McGraw-Hill, 1998.
- Dansby. Kaliski. Lawrance, College Accounting, 4<sup>th</sup> edition
- Ellis, L.O. and Thacker, R.J., Intermediate Accounting, McGraw-Hill, 1980.
- Fees P.E., and Warren, C.S. Accounting Principles, 14<sup>nd</sup> Ed, South–West Publishing, 1984.
- FESS. WARREN, Accounting Principles, 16<sup>th</sup> edition,





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