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Topic 1

Record payroll data

Payroll preparation is a very important and responsible role due to the confidential and sensitive nature of this work. It is essential that payroll data is entered accurately and that the data is verified before a payroll is processed.

Organisations may use manual or computerised payroll systems. Although many organisations use a computerised payroll system, it is important to understand the basic accounting processes in order to appreciate what happens to the data from the first transaction through to the production of the final payroll. This topic will refer mainly to the manual system. However, the principles and procedures covered also apply to computerised systems.

In this topic you will learn how to:

- 1A Calculate individual payments
- 1B Enter data into the payroll system
- 1C Check payroll data and clarify discrepancies

Annual leave

Most employees receive four weeks or 152 hours (four weeks x 38 hours) of paid annual leave each year. In addition, some industry awards pay a 'leave loading bonus', usually 17.5% of four weeks' pay. An employee who earns \$1000 per week and is entitled to four weeks of annual leave plus leave loading bonus would receive \$4700 in annual leave payment:

\$1,000	×	4 weeks	=	\$4,000
17.5%	×	\$4,000	=	\$700
				\$4,700

Annual leave entitlement commences upon permanent employment and accumulates throughout the year at a rate of 2.92 hours per week worked. If a permanent employee leaves an organisation, they must be paid annual leave on a 'pro-rata' basis; that is, according to how long they have been employed in the organisation. For example, if an employee has worked for 22 weeks of a year, the employee's leave entitlement would be 64 hours:

22 weeks/52 weeks	×	152 hours	=	64 hours
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Personal leave

Personal leave is the payment made when an employee is absent from work for medical reasons such as illness, or is absent due to caring for an immediate family member. Personal leave replaced sick leave on 1 January 2005. The number of days of paid personal leave an employee is entitled to varies according to the award or agreement under which they are employed, and an employer may require a medical certificate for the days an employee is absent. Usually there is a minimum period of employment before an employee is entitled to this leave.

Long service leave

Long service leave is an entitlement granted to employees for continuous service with the same employer. The entitlement for long service leave varies according to the award or agreement under which the employee works. It usually ranges from 10 weeks to 15 weeks of paid leave. Most employees are entitled to 13 weeks or 494 hours (13 weeks × 38 hours) of paid long service leave after working for the same employer for 10 years.

Other leave entitlements

Employees may be entitled to other forms of paid or unpaid leave depending on the award or agreement in force.

Other leave entitlements may include:

- parental leave
- jury service leave
- study leave
- compassionate leave
- leave for stop-work meetings.

Example: calculation of gross pay

The following examples show how gross pay is calculated according to the employee's terms and conditions of employment.

a) Calculating gross pay

Ross works at a local bakery as a casual employee. He earns \$20.00 per hour and is paid time and a half on Saturdays and double time on Sundays. This week, Ross worked 6 hours during the week, 4.5 hours on Saturday and 3.5 hours on Sunday.

Ross's gross pay for the week is calculated as follows:

Weekly hours:	\$20.00	×	6 hrs	=	\$120.00
Saturday hours:	(\$20.00 × 1.5)	×	4.5 hrs	=	\$135.00
Sunday hours:	(\$20.00 × 2)	×	3.5 hrs	=	\$140.00
Total gross pay:				=	\$395.00

b) Calculating gross pay

Naomi is a librarian for a large metropolitan newspaper. Her salary is \$54,800 per annum and is paid on a fortnightly basis. Naomi's gross pay per fortnight is:

\$54,800.00	÷	26 fortnights	=	\$2107.69 per fortnight
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c) Calculating overtime rates

Harani is given the job of calculating the total number of hours the employees in her organisation work, including overtime. To make her job easier, she equates overtime rates with normal hours, as follows:

Rate	Hours	Normal equivalent
1.0	38.00	38.00
1.5	10.00	15.00
2.5	8.00	20.00
Total hours		73.00

Calculating weekly gross pay is then simple, as Harani can just multiply the total normal equivalent with the hourly wage of the employee. For example:

73.00	×	\$20.00	=	\$1460.00
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Tax file number declaration

The ATO requires all employees to complete a TFN declaration when they first become employed. The information provided on this form determines the rate of PAYG Withholding that will be deducted from the employee's gross pay.

When a completed TFN declaration is submitted by an employee, the employer is required to complete the payer's section of the declaration. The TFN declaration is a duplicate form; the original must be sent to the ATO within 14 days of hiring the employee, while the duplicate is kept by the employer and must be filed appropriately.

The TFN declaration requires the following information to be provided.

Tax file number

If the employee does not provide their tax file number, the employer is required to withhold tax at the highest marginal rate, which is 47.0% (including Medicare levy) of gross wages.

Employee's details

This includes the employee's name, date of birth and address.

Employment status

This is the basis on which the employee has been hired: full-time, part-time or casual, etc.

Residency status

The employee must indicate whether they are an Australian resident. If the employee is not an Australian resident, the employer is required to withhold tax at a higher rate.

Tax-free threshold

Australian residents are not required to pay tax on the first \$18,200 they earn per year. This is known as the 'tax-free threshold'. Employees are able to claim the tax-free threshold from one employer only. If an employee claims the tax-free threshold from more than one employer, the result will be an underpayment of tax. The employee will be required to pay additional tax when they lodge their tax return. Employees should claim the tax-free threshold from their primary job (the job from which they earn the most income). If an employee has more than one job their secondary employer(s) will be required to deduct a higher rate of tax from their pay.

Calculate tax offsets

An employee may have submitted a TFN declaration claiming the tax-free threshold, and a withholding declaration specifying an amount covering a claim for a dependent rebate or other rebate. These claims are referred to as 'tax offsets', and the tax calculated on the employee's weekly gross pay must be reduced.

Note that if the employee has not provided a TFN declaration or has not claimed the tax-free threshold, they are not eligible to claim a tax offset.

The amount of any tax offsets (reductions in tax) that are claimed by an employee can be calculated using the ready reckoner for tax offsets. This table is part of the PAYG Withholding weekly tax table (page 9) and is reproduced here.

Ready reckoner for tax offsets

Amount claimed \$	Weekly value \$								
1	-	20	-	200	4.00	1000	19.00	1800	34.00
2	-	30	1.00	300	6.00	1100	21.00	1900	36.00
3	-	40	1.00	338	6.00	1173	22.00	2000	38.00
4	-	50	1.00	400	8.00	1200	23.00	2250	43.00
5	-	57	1.00	500	10.00	1300	25.00	2500	48.00
6	-	60	1.00	600	11.00	1400	27.00	3000	57.00
7	-	70	1.00	700	13.00	1500	29.00		
8	-	80	2.00	800	15.00	1600	30.00		
9	-	90	2.00	850	16.00	1700	32.00		
10	-	100	2.00	900	17.00	1750	33.00		

Source: www.ato.gov.au

If the exact tax offset amount claimed is not shown in the ready reckoner, add the values for an appropriate combination. For example:

Tax offsets of \$686 claimed. Add values of \$600, \$80 and \$6 = \$11.00 + \$2.00 + \$0.00 = \$13.00.

Therefore, reduce the amount to be withheld by \$13.00.

An alternative to using the amounts shown in the reckoner is to divide the annual amount claimed by 52 weeks (rounded to the closest whole dollar). When using this method, the weekly value may not always equal the amount shown in the reckoner.

Example: calculate net pay

The following case study illustrates how an employee's net pay is calculated.

Jane Jones has provided her TFN, claimed the tax-free threshold and is paid \$20.00 per hour. For the week ended 6 May she worked 38 hours, giving her a gross pay of \$760.00. The income tax applicable to this amount is \$99.00. She has requested that the following amounts be deducted from her weekly pay:

- medical benefits fund: \$35.00
- union dues: \$15.50
- social club: \$10.00.

Jane's net pay is calculated as follows:

Pay calculation for week ended 6 May	
Employee name	Jane Jones
Hours worked	38 hours
Hourly pay rate	\$20.00
Gross pay	\$760.00
<i>Less deductions</i>	
Income tax	\$99.00
Medical benefits fund	\$35.00
Union dues	\$15.50
Social club	\$10.00
Total deductions	\$159.50
Net pay	\$600.50

Example: employee history card

Employee personal information can be recorded on an employee history card, as shown in the following example, or may be kept in a secure electronic database.

Employee history card			
Surname: Johnson		Given names: Sabah Esther	
Emp ID: 5319			
Date of birth: 6/4/1959		Home ph: 9555 1249	
		Mobile: 0418 625 056	
TFN: 432 159 831			
Residential address: 22 Morris Street, Mudrain			
Postcode: 1605			
Postal address: As above			
Driver's licence: 4223 687 9		Expiry date: 8/4/2015	
Medical conditions: None			
Next of kin: Phillip Johnson	Relationship: Husband		Phone: 0438 044 485
Date commenced: 1/3/1996		Occupation: Accountant	Employment status:
Award applicable or other particulars: Salary as per contract of employment		F/ T P/ T CASUAL	
Pay & pay period: Salary: \$60,000 per annum, monthly		Allowances:	
Other related information:		\$2000 Car allowance	
Bank account details	Bank: FBA	BSB: 083-323	Acct No: 46 851 7763
		Name on account: SE & PR Johnson	
Superannuation guarantee fund: CBA Member ID: 2482622159;			
Voluntary contributions: \$60.00 per week			
Annual leave entitlement: 4 weeks per annum	Loading: Yes No		Other deduction:
Personal leave entitlement: 16 days per annum	If Yes, rate: 17.5%		
Reviews / appraisals: Salary to be reviewed 1 March 2016			

continued ...

2A Follow payroll procedures to prepare a payroll register

Processing a payroll can take considerable time and there should be a procedure in place that allows calculations to be checked and the final outcome authorised before net pays are forwarded to employees.

The following table illustrates an organisation's time lines and procedures for preparing and processing a weekly payroll.

Payroll procedures and authorisations (weekly)		
Documentation	Payroll activity	Authorising person
Time sheets	Time sheets to be calculated by Monday of each week. Time sheets to Payroll Department by 5.00 pm each Monday.	Timekeeper
Employee details	Changes to employee pay rates, changes to deductions, additional allowances, sick leave claims to Payroll Department by 5.00 pm each Monday.	Human resources department
Payroll register	Payroll register prepared by 4.00 pm each Tuesday. Time sheets verified and errors reported to timekeepers.	Payroll officer
Payroll register authorised	Payroll register to be sighted and authorised by accountant by 5.00 pm each Tuesday.	Payroll manager
Payroll cheques	Employee pay cheques to be prepared by 4.00 pm each Wednesday	Accounts payable department
Payroll cheques authorised	Employee pay cheques to be verified against payroll register and signed by 5.00 pm each Wednesday.	Accountant and another manager (not involved in payroll preparation)
Distribution of pay cheques	Employee pay cheques to be distributed to all employees by 4.00 pm each Thursday.	Cashier
Storage	All time sheets, payroll registers and employee earnings records to be stored for at least seven years.	Payroll manager

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Employee time sheets week ended 22 July 2015

Employee time sheets were received for the following workers:

Employee Name	Hours worked		Comments
	Normal	Overtime	
J Able	38	10	
P Bader	38		
D Carr	25	5	
B Dunk	38	4	
Z Farr	38	3	
M Gartt	40		
J Manu	38		On personal leave all week
B Pest	38	4	
O Ray	38	2	
R Wenn	38		
T Zhao	0		On personal leave all week

Payroll register week ended 22 July 2015

An extract of the hours worked recorded on the payroll register showed the following:

	Normal hours	Overtime hours	Personal leave	Annual leave
J Able	38.00	10.00		
P Bader	38.00	4.00		
D Carr	38.00	5.00		
B Dunk	38.00	4.00		
Z Farr	38.00			
M Gartt	38.00			
J Manu	38.00			
B Pest	38.00			
O Ray	38.00	12.00		
R Wenn	38.00			
T Zhao				38.00

continued ...

Practice task 6

Prepare the cash analysis sheet for the employees' net pays at Samantha's Salon Experience.

Samantha's Salon Experience												
Cash analysis sheet for week ending: 15.7.2015												
Employee name	Net pay	Notes				Coins						
		\$50	\$20	\$10	\$5	\$2	\$1	50¢	20¢	10¢	5¢	
A Williams	\$209.00											
S Sabatko	\$631.30											
B Kirby	\$756.00											
J Fox	\$307.60											
Totals	\$1903.90											

Denominations	Number	\$
\$50		
\$20		
\$10		
\$5		
\$2		
\$1		
50¢		
20¢		
10¢		
5¢		
Net pay (\$)		

... continued

Employee earnings card for year ending: 30.6.2015											
Name: Michael Tiller Employee no: 1234 Address: 51 Brooke St, Mudrain, 1605 Date of birth: 15.3.1960			Date commenced: 1.5.2000 Occupation: Foreman								
Pay period ending	Gross pay			Deductions				Net pay \$	Accumulated totals		
	Normal \$	1.5 \$	2.0 \$	Gross pay \$	PAYG tax \$	Medical ass'n \$	Super \$		Total \$	Gross pay \$	Tax withheld \$
Balances										24000.00	2450.00
20.06.15	480.00	126.00	72.00	678.00	70.00	0.00	95.00	165.00	513.00	24678.00	2520.00
27.06.15	480.00	126.00	72.00	678.00	70.00	0.00	95.00	165.00	513.00	25356.00	2590.00

You should note that it is important to accumulate the gross pay on the employee earnings card and not the net pay, as the accumulated gross pay must be included on the employee's statement of earnings at the end of the financial year.

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Samantha's Salon Experience					
Payroll register for week ending: 15 July 2015					
	Employee Name				Totals
	Andy Williams	Sachi Sabatko	Bethany Kirby	Julio Fox	
HOURS WORKED					
Normal hours	20	40		25	85
Overtime hours (×1.5)		6		4	10
Overtime hours (×2)					
ENTITLEMENTS (\$)					
Normal pay (\$)	428.00	628.00	1100.00	365.00	2521.00
Overtime hours × 1.5 × normal pay rate (\$)		141.30		87.60	228.90
Overtime hours × 2 × normal pay rate (\$)					
Allowances (\$)					
GROSS PAY (\$)	428.00	769.30	1100.00	452.60	2749.90
DEDUCTIONS					
Income tax (\$)	201.00	87.00	237.00	114.00	639.00
Medical association (\$)	10.00	25.00		25.00	60.00
Superannuation (\$)	10.00	30.00	50.00	10.00	100.00
TOTAL DEDUCTIONS (\$)	221.00	142.00	287.00	149.00	799.00
NET PAY (\$)	207.00	627.30	813.00	303.60	1950.90

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Computerised payrolls

In a computerised payroll system an electronic file is created for each employee. The information in each employee file is the same as the information kept on an employee history card.

The processing of a payroll is much faster on a computerised system, as the requirement for many manual calculations is removed. Another advantage of a computerised payroll system is the ability to automatically produce a large range of reports. For example, a computerised payroll system could produce a report of all leave taken by an individual employee, a list of unused personal leave, or a printout of the payroll register. There are a number of various computerised payroll systems available on the market.



Outsource the payroll

Another option available to organisations is to outsource the payroll function to a business that specialises in payroll services. These businesses may prepare payrolls for many employers. As well as calculating pay amounts, payroll businesses are often responsible for the transfer of net pays into each employee's bank account. The advantages and disadvantages of outsourcing payroll processing is shown in the following table.



Benefits

The benefits to the employer of outsourcing the payroll may include:

- cost savings – a small organisation may not need to install expensive hardware and software or employ additional staff to undertake the payroll function
- efficiency – the payroll is produced quickly.



Disadvantages

Disadvantages of outsourcing the payroll can include:

- lack of control over the payroll function
- increase in time taken to correct errors.

Employee name: Paul Cameron Week no: 5			No: 175 Week ending: 26.2.15			
Day	Starting time	Finishing time	Time off/ meals	Total hours/ minutes	Normal time hours	Overtime hours
Monday	8.00 am	6.00 pm	1 hour	9.00	7.60	1.40
Tuesday	8.30 am	5.30 pm	1 hour	8.00	7.60	0.40
Wednesday	8.30 am	7.30 pm	1 hour	10.00	7.60	2.40
Thursday	9.00 am	5.10 pm	0.5 hours	7.60	7.60	
Friday	8.30 am	5.30 pm	0.5 hours	8.50	7.60	0.90
Saturday						
Sunday						
Totals				43.10	38.00	5.10
Total hours worked during the week: 43 hours 10 minutes						
Signature of employee: <i>P Cameron</i>			Signature of supervisor: <i>A Lutz</i>			

Employee name: Barbara Lyon Week no: 5			No: 114 Week ending: 26.2.15			
Day	Starting time	Finishing time	Time off/ meals	Total hours/ minutes	Normal time hours	Overtime hours
Monday	9.30 am	6.30 pm	1 hour	8.00	7.60	0.40
Tuesday	8.00 am	5.30 pm	1 hour	8.50	7.60	0.90
Wednesday	7.30 am	5.00 pm	1 hour	8.50	7.60	0.90
Thursday	8.00 am	5.00 pm	1 hour	8.00	7.60	0.40
Friday	8.30 am	5.30 pm	1 hour	8.00	7.60	0.40
Saturday						
Sunday	9.00 am	1.00 pm		4.00		4.00
Totals				45.00	38.00	7.00
Total hours worked during the week: 45 hours 0 minutes						
Signature of employee: <i>B Lyon</i>			Signature of supervisor: <i>A Lutz</i>			

Employee name: Penelope Ashton			No: 1206		
Week no: 49			Week ending: 9.12.15		
Day	Starting time	Finishing time	Time off/ meals	Normal time hours	Overtime
Monday					
Tuesday					
Wednesday					
Thursday					
Friday	5.00 pm	9.00 pm	0.5 hours		
Saturday	10.00 am	5.00 pm	0.5 hours		
Sunday	10.00 am	5.00 pm	0.5 hours		
Total hours worked during the week:			16 hours 30 minutes		
Signature of employee: <i>P Ashton</i>			Signature of supervisor: <i>K Adams</i>		

1. Payroll register

The House of Linen Pty Ltd					
Payroll register for week ending:					
	Employee Name				Totals
	Jill Smith	Judith McDonald	Christina Turner	Penelope Ashton	
HOURS WORKED					
Normal hours					
Overtime hours (×1.5)					
Overtime hours (×2)					
ENTITLEMENTS					
Normal pay (\$)					
Overtime hours × 1.5 × normal pay rate (\$)					
Overtime hours × 2 × normal pay rate (\$)					
GROSS PAY (\$)					
DEDUCTIONS (\$)					
Income tax (\$)					
Medical association (\$)					
Superannuation (\$)					
TOTAL DEDUCTIONS (\$)					
NET PAY (\$)					

3A

Respond to payroll enquiries

The type and amount of queries received from employees regarding their payments will depend on the nature and size of the organisation. Queries may be received and responded to through various methods of communication including by telephone, in writing, in person or by email.

Some organisations allow their employees access to their pay information on the organisation's intranet, through a personal identification number or password. This allows them to view their leave entitlements, employment history and so on, as well as to update contact information.

Enquiries from employees are likely to cover a variety of situations and a level of complexity ranging from informal questions to serious complaints. They might cover enquiries about allowances, holidays, HELP contributions, the Medicare levy, tax deductions etc., in which case you need to be familiar with the governing legislation relating to the enquiry. In other cases you will need to know how to access information not readily available.

Be familiar with the types of queries a payroll department receives. As you read through the following list of queries and complaints, think about how you would respond.

Typical queries a payroll department receives:

- How is my pay calculated each week?
- Did you deduct my savings contribution?
- It doesn't look like you paid me the correct rate for my overtime.
- My car allowance is not in my pay.
- How much annual leave do I have left?
- How did you calculate my commission this week?
- When do I get a pay rise?
- Peter does the same job as me. Why does he get paid more?

Body language

Body language means using your body and facial expressions to communicate. For example, leaning forward, nodding your head and maintaining eye contact indicate that you are interested in what the speaker is saying. Yawning, shrugging your shoulders and looking away indicate that you are not interested. Make sure you are aware of the body language you use when you are discussing a pay query, so the person will know that you are interested in their situation and are there to help them.



Practice task 10

Why is it important to try and resolve simple enquiries immediately, keep a record of the enquiry and deal with enquiries in a professional and courteous manner?

Legislation relevant to payroll enquiries is outlined in the following information.

1

Anti-discrimination

Anti-discrimination legislation, which is contained in a series of Commonwealth and state Acts that require workers and employers to treat everyone the same regardless of age, gender or background; it includes the:

- *Age Discrimination Act 2004 (Cth)*
- *Australian Human Rights Commission Act 1986 (Cth)*
- *Disability Discrimination Act 1992 (Cth)*
- *Racial Discrimination Act 1975 (Cth)*
- *Sex Discrimination Act 1984 (Cth)*

2

Codes of practise and ethical principles

Codes of practice and ethical principles, which can be workplace-based or applied by a professional association; for example, the Accounting Professional and Ethical Standards Board code of ethics

3

Privacy

Privacy laws, which are contained in the *Privacy Act 1988 (Cth)* and described in 13 principles; for example, make sure you store confidential information appropriately

4

Safety

Work health and safety (WHS) laws, which are state-based, but essentially impose the same requirements on all employers and workers; for example:

- make sure you follow safety directions when using equipment
- follow manual handling guidelines
- notify your supervisor if work demands are causing stress

5

Financial

Financial legislation, of which there are many state and Commonwealth acts – some of the main legislation affecting your role relates to fringe benefits and GST; for example:

- *Income Tax Act 1986 (Cth)*
- *Fringe Benefits Tax Assessment Act 1986 (Cth)*
- *A New Tax System (Goods and Services Tax) Act 1999 (Cth)*

3D

Follow up a payroll enquiry

If an employee cannot be given an immediate response, it is important to get back to them with information regarding their enquiry as soon as possible. A prompt reply is essential. An organisation's policies and procedures may state that a response must be given within a designated time. You also need to know who to refer the matter to if it is outside your area of responsibility, and what kind of documentation is necessary to record and resolve the situation. If the payroll is outsourced you may have to contact the outsourced business to clarify the situation.



Follow up actions

The follow-up action required will vary according to the query. For example, if an employee has complained that their overtime has not been included in their pay, it may be necessary to locate their time sheet and the authorisation of the overtime to determine whether it was payable.

You must follow through on all queries by keeping in touch with the employee through the resolution process and notifying them with a timely response. It is frustrating for an employee to have explained a difficulty to a payroll officer and then hear nothing about what is being done to resolve the situation. Always provide a time frame for getting back to the employee and make sure you contact them, even if the situation hasn't been resolved.

Follow-up actions may include:

- referring a matter to the appropriate person
- seeking further relevant information
- gathering further documentation
- researching a situation or incident.