What is 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. As a business function, it involves:_

- Developing organization pay policy including flexible benefits, leave encashment policy, etc.

- Defining payslip components like basic, variable pay, HRA, and LTA

- Gathering other payroll inputs (e.g., organization's food vendor may supply information about the amount to be recovered from the employees for meals consumed)

- The actual calculation of gross salary, statutory as well as non-statutory deductions, and arriving at the net pay

- Releasing employee salary

- Depositing dues like TDS, PF, etc. with appropriate authorities and filing returns

What is Payroll?

Collect payroll inputs

Gross & Net salary calculation

Define pay components

Distribute payslips

Set pay policy

Deposit and report dues like TDS, PF, ESI etc

What is Payroll?

In short, we can say that payroll process involves arriving at what is due to the employees also called as 'net pay' after adjusting necessary taxes and other deductions.

The equation for calculating the net pay
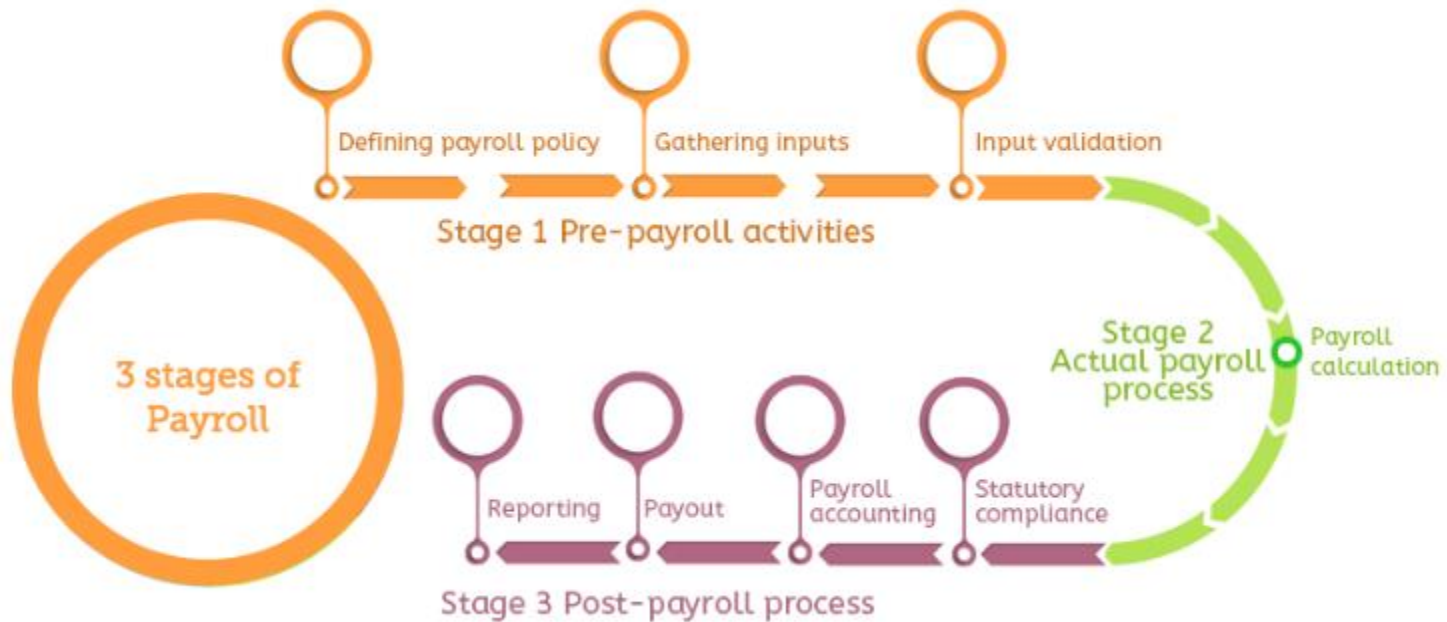
Net pay = Gross income- gross deduction

Where,

Gross income or salary = All types of regular income + allowances + any one-time payment or benefit

Gross deduction = All types of regular deductions + statutory deductions + any one-time deductions

Stages to Processing Payroll

- A payroll officer needs to do careful planning. There are always ongoing tasks that need attention and a constant need to monitor changes to withholdings, contribution to social security funds, etc. The entire process can be split into three stages, pre-payroll, actual payroll and post payroll activities.

3 stages of Payroll

Stage 1 Pre-payroll activities: Defining payroll policy, Gathering inputs, Input validation

Stage 2 Actual payroll process: Payroll calculation

Stage 3 Post-payroll process: Reporting, Payout, Payroll accounting, Statutory compliance

Pre-Payroll Activities

Defining Payroll Policy

- The net amount to be paid is affected by multiple factors. The company's various policies such as pay policy, leave and benefits policy, attendance policy, etc. come into play at that time. As a first step, such policies need to be well defined and get approved by the management to ensure standard payroll processing.

Pre-Payroll Activities

Gathering Inputs

- Payroll process involves interacting with multiple departments and personnel. There can be information like mid-year salary revision data, attendance data, etc.

- In smaller organizations, these inputs are received from a consolidated source or fewer teams. However, in a larger organization, the task of gathering data may look overwhelming. If you are using a smart payroll system having integrated features like leave and attendance management, employee self-service portal, etc. inputs collection process does not remain a problem.

Pre-Payroll Activities

Input Validation

Once inputs are received, you need to check for validity of the data concerning adherence to company policy, authorization/approval matrix, right formats, etc. You also need to ensure that no active employee is missed out and that no inactive employee records are included for salary payment

Actual Payroll Process

Payroll Calculation

At this stage, the validated input data is fed into the payroll system for actual payroll processing. The result is the net pay after adjusting necessary taxes and other deductions. Once payroll process is over, it is always a good practice to reconcile the values and verify for accuracy to avoid any errors.

Post-Payroll Process

Statutory Compliance

All statutory deductions like EPF, TDS, ESI are deducted at the time of processing payroll. The company then remits the amount to the respective government agencies. The frequency can vary depending on the type of the dues. In most cases, payment of dues is made via challans. After all dues are paid return/report are filed. E.g., for filing PF return, ECR is generated and filed.

Post-Payroll Process

Payroll Accounting

Every organization keeps a record of all its financial transactions. Salary paid is one of the significant operating costs which has to be reported in the books of accounts. As part of payroll management, it is essential to check that all salary and reimbursement data is fed accurately into accounting/ERP system.

Post-Payroll Process

Payout

You can pay salary by cash, cheque or bank transfer. Typically organizations provide employees with salary bank account. Once you complete payroll, you need to ensure that company's bank account has sufficient funds to make the salary payment. Then you need to send a salary bank advice statement to the concerned branch. This statement is issued with particulars like employee id, bank account number, amount of wages, etc. If you are opting for a payroll management software that has employee self-service portal, you can easily publish the payslips and employees can log-in to their account and access the payslips.

Post-Payroll Process

Reporting

Once you complete payroll run for a particular month, finance and high management team may ask for reports such as department wise employee cost, location wise employee cost, etc. As a payroll officer, it becomes your responsibility to dig into the data and extract required information and share the reports.

Various 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