

1. 📖 What is Payroll?

Payroll is the process of managing employee compensation. It includes calculating salaries and wages, processing statutory deductions (like PAYE, NSSF, NHIF), generating pay slips, and maintaining records for compliance and auditing.

Payroll systems ensure employees are paid correctly and on time while also ensuring that all required deductions are accounted for.

2. 🎯 Importance of Payroll in Accounting

- ✅ Ensures accurate salary calculation and disbursement.
 - ✅ Facilitates compliance with legal and statutory obligations.
 - ✅ Keeps employee compensation records up to date.
 - ✅ Supports preparation of reports for audits and management.
 - ✅ Automates repetitive and time-consuming calculations.
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3. 🧩 Components of Payroll

A. Earnings (Additions):

- Basic Salary
- House Allowance
- Transport Allowance
- Overtime
- Bonuses
- Leave Pay
- Medical Allowance

B. Deductions:

- PAYE (Pay as You Earn)
- NSSF (Social Security)

- NHIF (Health Insurance)
- SACCO Contributions
- Loans and Advances
- Penalties or Absentee Deductions

C. Net Pay:

The final amount paid to the employee after all additions and deductions:

Net Pay = Gross Pay – Total Deductions

4. Payroll Setup in Tally

Tally makes it easy to configure payroll with full flexibility for earnings, deductions, attendance, and reporting.

Step-by-Step Setup:

Step 1: Enable Payroll

- Go to **Gateway of Tally → F11: Features → Accounting Features**
 - Set **Enable Payroll** to **Yes**
 - Press **Ctrl + A** to save
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Step 2: Create Employee Groups

- Go to **Payroll Info → Employee Groups → Create**
 - Example: Management, Support Staff, Sales Department
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Step 3: Create Employees

- Go to **Payroll Info → Employees → Create**
- Enter:
 - Employee Name

- Designation
 - Group (e.g., Sales)
 - Date of Joining
 - Gender
 - Employee Number (optional)
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Step 4: Define Payroll Units

If salaries depend on hours or days worked:

- Go to **Payroll Info → Units → Create**
 - Examples: Hours, Days, Pieces
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Step 5: Create Pay Heads

Pay Heads are components used to calculate salary:

Types:

- **Earnings for Employees** – Basic Pay, Allowances
- **Deductions from Employees** – PAYE, NSSF
- **Employer Contributions** – Employer NSSF, Pension
- **Reimbursements** – Medical Reimbursements
- **Loans & Advances**

Each pay head has:

- Calculation Type: As Flat Rate, On Attendance, or On Computed Value
 - Affect Net Salary: Yes or No
 - Statutory Type: If applicable (e.g., PAYE)
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Step 6: Salary Details Setup

- Go to **Payroll Info → Salary Details → Create**

- Select Employee
 - Add pay heads with amounts or percentages
 - Press **Ctrl + A** to save
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5. Attendance & Production

To process salary based on attendance:

- Go to **Payroll Info → Attendance/Production Types → Create**
 - Examples: Present, Absent, Sick Leave, Overtime
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6. Payroll Vouchers

Used to enter monthly salary records.

How to Process Payroll:

1. Go to **Gateway of Tally → Payroll Vouchers**
 2. Use **Auto Fill** (Ctrl + F7) to calculate salary for all employees
 3. Tally will auto-calculate based on the pay heads and attendance
 4. Press **Ctrl + A** to save
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7. Payroll Reports in Tally

Report Name	Purpose
Payslip	Shows salary details for an employee
Pay Sheet	Summary of all employee salaries
Payroll Statement	Displays summary based on pay heads
Attendance Sheet	Tracks employee attendance
Employee Ledger	Salary history per employee

Report Name	Purpose
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Statutory Reports	Reports for PAYE, NHIF, NSSF, etc.
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8. Sample Payslip

Component	Amount (KES)
Basic Salary	30,000
House Allowance	5,000
Transport Allowance	2,000
Gross Pay	37,000
PAYE	(2,000)
NHIF	(500)
NSSF	(200)
Net Pay	34,300

9. Statutory Deductions in Kenya

1. PAYE (Pay As You Earn):

- Monthly tax on income
- Based on graduated rates set by Kenya Revenue Authority (KRA)

2. NSSF:

- Mandatory pension contribution
- Employer and employee each contribute KES 200 (old rate) or according to new tiered rates

3. NHIF:

- Health insurance contribution
- Based on gross pay, ranges from KES 150 to 1,700

10. ⚠️ Common Payroll Mistakes to Avoid

Mistake	Impact	How to Avoid
Wrong deduction calculations	Tax underpayment or penalties	Verify tax slabs and rates
Missing salary heads	Inaccurate net pay	Cross-check employee salary setup
Not updating leave/attendance	Wrong salary	Enter attendance before processing
No backup before payroll	Data loss	Always backup before salary processing

11. ✅ Best Practices in Payroll

- Configure all statutory ledgers properly
 - Back up data before monthly salary processing
 - Maintain employee master data with up-to-date info
 - Generate and review payslips before payment
 - Match payroll reports with bank disbursements
 - File statutory returns (PAYE, NHIF, NSSF) timely
 - Keep digital and printed records for audit
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12. 💼 Payroll and Bank Payment

You can integrate payroll with banking in Tally:

- Create a **Bank Ledger** under **Bank Accounts**
- Record salary payment using **Payment Voucher (F5)**
- Use **Cheque or Bank Transfer** option
- Link the payment with payroll voucher reference

13. Payroll Journal Entries (Example)

Account	Debit (KES)	Credit (KES)
Salaries Expense A/C	37,000	
PAYE Payable A/C		2,000
NHIF Payable A/C		500
NSSF Payable A/C		200
Bank / Cash A/C		34,300

14. Tally Tips for Payroll

- Use templates for recurring payroll setups
 - Assign each employee to a correct group
 - Avoid manual calculation – let Tally compute automatically
 - Regularly update tax slabs and rates in settings
 - Use shortcuts like **Ctrl + F7** for auto-filling salary
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15. Summary

Payroll in Tally offers a complete solution for:

- Managing employee compensation
- Statutory compliance
- Payslip and payroll register generation
- Salary payment tracking
- Transparent reporting

Tally helps reduce manual errors, automate calculations, and maintain proper records for HR, finance, and audit purposes.

