



COURSE NAME: ADVANCED TALLY WITH GST SKILL

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PROJECT TITLE: CREATE THE CONFIGURATION OF PAYROLL IN TALLY

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GROUP MEMBERS :

CLIFFORD.M	( unm287e2021bcomcs002)
LOGESH.R	( unm287e2021bcomcs003)
PRAKASH.R	( unm287e2021bcomcs004)
RAJASEKAR.K	( unm287e2021bcomcs005)
SANJAY.M	( unm287e2021bcomcs006)

GUIDED BY: MS.C.SASIKALA

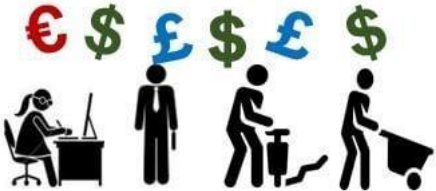
SPOC NAME: MR.R.RAMPRASAD


## INTRODUCTION TO PAYROLL:

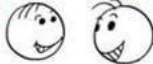
Payroll is a process where the businesses generally compute and withhold government taxes like social security and individual income taxes from an employee's salary.

Many companies also have benefit plans like health insurance, which include deductions of premiums from its employees' salaries according to employee customization, adding another layer of activity for payroll processing.

# Payroll

 **Amount required to pay employees during a week, month, or other period.**

 **Process of calculating workers' salaries, tax deductions, & paying them.**

**"Where's payroll?"**  **"Upstairs"** **Company department that deals with workers, pay, etc.**

WORKER	JOB	BEGAN
John Smith	Manager	11/01/18
Mary Jones	Lab Tech	01/01/17
Dan Liu	Cleaner	12/01/12
Eric Sykes	Driver	09/10/08

**List of employees plus information about them.**

In simple terms, payroll definition can be written as the process of paying employees. Its procedure is to create a list of paid employees, calculate their working hours, estimate their pay, give their salary on time, and record the expense of payroll. Payroll is the prime expense for any business entity.

## **COMPONENTS OF PAYROLL PROCESS:**

### **Allowances**

Allowances are categories of expenditures in India that are not taxable, provided they match certain specifications and do not exceed a certain amount.

Allowances in India include those for:

- House rent
- Transport
- Medical
- Meals
- Leave travel
- Education
- Special allowance.

## **COMPONENT OF SALARY :**

### **BASIC SALARY**

Basic salary is a fixed amount paid to employees by their employers in return for the work performed or performance of professional duties by the former.

Base salary, therefore, does not include bonuses, benefits or any other compensation from employers. As the name suggests, basic salary is the core of the salary of an employee.

## **TYPES OF ALLOWANCE:**

### **A. Taxable Allowance**

Taxable allowances are those allowances which are part of salary and are not exempted under any section of Income Tax Act. These are taxed as per the tax slab of the employee. Here are few commonly known taxable allowances:

- 1. Dearness Allowance:** Dearness Allowance is mostly paid to employees over the basic salary to manage inflation and as an adjustment towards the cost of living expenses. The income tax act clearly mentions that tax liability for Dearness Allowance will be calculated along with salary. Therefore, one must declare the same while filing income tax returns.
- 2. Entertainment Allowance:** This allowance is given to employees to meet the expenses towards hospitality in receiving customers etc. The Act gives a deduction towards entertainment allowance only to a Government employee and in case of non-government employees entertainment allowance is completely taxable.

Entertainment allowance received is fully taxable and is first to be included in the salary and thereafter the following deduction is to be made from gross salary:

The amount of deduction will be lower of:

- One-fifth of his basic salary or
- 5,000 or
- Entertainment allowance received.

Amount actually spent by the employee towards entertainment out of the entertainment allowance received by him is not a relevant consideration at all.

- 3. Medical Allowance:** This allowance is paid for the medical expenses incurred by the employee. this allowance is fully taxable.

4. **Overtime Allowance** - Employees who work beyond their regular shifts may receive an overtime payment from their employers. This is referred to as overtime and any compensation received is fully taxable.
5. **City Compensatory Allowance** - This payment is made to employees who work in urban areas that may be quite expensive in order to help them cope with the excessive expense of living there. It is taxable irrespective of the fact whether it is given as compensation for performing his duties in a particular place or under special
6. **Interim Allowance** - Any interim allowance given by an employer in place of a final allowance is completely taxed.
7. **Project Allowance** - When an employer pays an employee's project-related expenses out of an allowance, that income is completely taxable.
8. **Tiffin/Meals Allowance**- When employer pays for employee's tiffin/meals that is entirely taxable.
9. **Cash Allowance** - When an employer offers a cash allowance, such as one for a wedding, a funeral, or a holiday, it is fully taxable.
10. **Non-Practicing Allowance** – this allowance is given to doctors who provides their employer a certificate that they are not working in any self practice. This allowance is generally 20% of basic salary and dearness allowance.
11. **Warden Allowance** - When an employer provides a stipend to a worker serving as a Warden, or Keeper, at a school, the stipend is completely taxable.
12. **Servant Allowance** - When an employer pays a worker to use a servant's services, that allowance is considered as taxable income.
13. **Transport allowance** - Transport allowance granted to an employee to meet his expenditure for the purpose of commuting between the place of his residence and the place of his duty is fully taxable. However, in case of blind/ deaf and dumb/ orthopedically handicapped employees exemption upto 3,200 p.m. is provided under section 10(14).
14. **Other Taxable allowances** - Telephone Allowance, Holiday allowance, and so on.

## **B. Non-Taxable Allowance**

These allowances are part of the salary, however, are fully exempt from tax, which means while computing tax these are deducted from the salary. Here are few commonly known fully exempted allowances:

- 1. Uniform Allowance:** Any allowance granted to meet the expenditure on the purchase or maintenance of uniform for wear during the performance of the duties of an office or employment of This is exempted to the limit of the actual amount spent on the expenses.
- 2. Allowances Paid to Government Employees Abroad** - Allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for services rendered outside India are exempt from tax
- 3. Allowances Paid to UNO Employees** - Allowance paid by the UNO to its employees is not taxable by virtue of section 2 of the United Nations (Privileges and Immunities) Act,
- 4. Allowances Judges of the High Court and Supreme Court** - Any allowance paid to a Judge of a High Court and Supreme Court is not taxable.
- 5. Compensatory Allowances** - Compensatory allowance received by judge under Article 222(2) of the Constitution is not taxable since it is neither salary not
- 6. Sumptuary allowance-** Sumptuary allowance given to High Court Judges under section 22C of the High Court Judges Act, 1954 is not chargeable to tax.
- 7. Helper Allowance** - Helper Allowance is the allowance granted to an employee to meet the expenditure incurred on a helper when such helper is engaged for performing official duty.
- 8. Other Tax Free Allowances** – Daily Allowance, Academic / Research Allowance, Conveyance allowance, Allowances paid to government employee posted outside India, Compensatory Allowances paid to Judges, and Travelling Allowance, and so on.

### **C. Partially Taxable Allowances**

These allowances are exempt from tax to a certain limit as instructed in the income tax act. Here are few commonly known partially taxable allowances:

1. **House Rent Allowance** - HRA is a special allowance specifically granted to an employee by his employer towards payment of rent for residence of the As per the Sec 10 (13A), the least of the following is exempted, and rest amount is taxable.
  - Actual HRA received ○ Rent Paid – 10% (Basic salary + DA)
  - 40% of salary ( basic + DA) and 50% in metro cities like Mumbai, Kolkata, Delhi, or Chennai)

Exemption is not available to an assessee who lives in his own house, or in a house for which he has not incurred the expenditure of rent.

2. **Children Education Allowance** - This allowance is granted towards the expenses incurred on a child's education. This is exempted up to Rs. 100 per month per child up to a maximum of 2 children.
3. **Hostel Expenditure Allowance** - This allowance is granted to employees for the expenses incurred on the hostel fees of their child. This is exempted up to Rs. 300 per month per child up to a maximum of 2 children.
4. **Transport allowance** - Any transport allowance granted to an employee who is blind or deaf and dumb or orthopedically handicapped with disability of the lower extremities of the body, to meet his expenditure for commuting between his residence and place of duty is exempt upto rs 3200 per month.
5. **Allowance given to an employee in the transportation industry** - Allowance given to an employee in the transportation industry to cover personal expenses while performing duties related to the operation of such transportation from one location to another, if the employee is not receiving the daily allowance.

Amount of exemption shall be lower of following:

70% of such allowance; or Rs

10,000 per month.

6. **Special Allowance** - Special Allowance is a allowance granted to the Employees to meet certain expenses. The expenses must be incurred against which such allowance is given to the employee.
7. **Underground Allowance**- This allowance is granted to an employee who is working in uncongenial, unnatural climate in underground mines is exempt upto 800 per month.
8. **Conveyance Allowance Exemption Limit** - Conveyance allowance refers to the compensation provided by the employer to the employee for travelling to and from the workplace. Taxes are not due on the allowance up to a monthly cap of INR 1600. According to the Income Tax Act, taxes will be due on any sums received in excess of INR 1600. However, with the amendment coming in Budget 2018, tax exemption on conveyance/transport allowance has been replaced and included in the Standard Deduction allowed. Therefore, no separate exemption will be allowed for conveyance/transport allowance from FY 2018-19 onwards.

**9. Leave Travel Allowance**- You are eligible to claim exemption for LTA if you are going on a vacation subject to exemption limit as specified under the Income Tax Act, 1961. This exemption applies to the employee's when the journey is performed by rail, aircraft, or bus. The exemption is as below

1. If travel by Air: Maximum exemption shall be economy fare calculated by the airlines considering shortest route to the Destination.
2. Where place of origin and destination is connected by Railways and the Journey is performed between such places : Maximum exemption shall be not more than air-conditioned first class rail fare by the shortest route.
3. Where place of origin and destination is not connected by Railways : In case recognized public transport exist, maximum exemption will be of amount not



exceeding first class fare of such transport by shortest route. In case recognized public transport does not exist, amount equal to air conditioned first class rail fare.

This exemption does not apply to any additional local transportation, sightseeing, hotel accommodations, meals, or other expenses. The lower of the two exemptions will be allowed:

- The employer provides LTA.
- Exemption based on expenses incurred or the applicable amounts subject to the conditions covered above for each method of transportation.

**10. Medical Allowance** - Medical allowance is a part of the salary, exactly like dearness allowance. It is totally taxed.

Medical reimbursement is a refund of the employee's or his family's medical expenses. The exemption amount will be the lesser of the two;

However, with the amendment coming in Budget 2018, tax exemption on medical reimbursement has been replaced and included in the Standard Deduction allowed. Therefore, no separate exemption will be allowed for Medical Reimbursement from FY 2018-19 onwards.

**11. Car maintenance allowance** - If an employee uses a company's car and the company repays the driver's wage, insurance, maintenance, and fuel expenses, the taxable value is Rs 2,700 per month (cars with cubic capacity within 1.6 Litre) or Rs 3,300 per month (cars with engines over 1,600 cc) (car with cubic capacity exceeding 1.6 Litre).

An exemption of Rs 2,700 per month or Rs 3,300 per month in respect of the driver salary, maintenance, and fuel expenditures paid and refunded by the employer if the employee owns the car.

**For processing employee payroll, there are eight basic steps from start to finish:**

1. Choose a payroll system.
2. Create a payroll policy.
3. Gather employee information.
4. Setup direct deposit.
5. Establish a time-tracking system.
6. Collect employee timesheets.
7. Approve and submit payroll.
8. Report and update payroll records.

### **FORMULA FOR CALCULATING:**

Payroll Gross Salary = Basic salary + HRA + DA + Allowances +  
One-time payment/incentive (Reimbursements, Arrears, Bonus, etc.)



**Salary Formula** = Basic + HRA + Transport Allowance +  
FBP Allowance + Bonus – Provident Fund –  
Income Tax – Insurance



## PAYROLL IN TALLY PRIME:

1. Gateway of Tally > Vouchers > press Ctrl+F4 (Payroll). Alternatively, Alt+G (Go To) > Create Voucher > press Ctrl+F4 (Payroll).
2. Press F2 to change the Voucher Date.
3. Press Ctrl+F to select the Payroll Autofill in the Autofill screen.
4. Type of transaction: select the Type of Autofill as Payroll Autofill.
5. Process for: select the Salary in the Process for field.
6. From (blank for beginning): enter the From Dates.
7. To (Blank for end): enter the To Dates.
8. Employee/Group: select the Employee/Group from the List of Employees/Group, whose salary you want to process.
9. Sort by: Select the sorting option in the Sort by field.
10. Payroll/Bank/Cash Ledger: Select the appropriate Payroll Ledger from the List of Ledger Accounts.

The screenshot displays the Tally Prime interface. The main window is titled 'Autofill' and 'National Enterprises'. It shows a 'Payroll' voucher with 'No. 5'. The 'Account' field is empty, and the 'Cur Bal' is '0.00 Cr'. The 'Particulars' field is also empty. A dialog box titled 'Autofill' is open, showing the following fields:

Autofill	
Type of transaction	: Payroll Autofill
Process for	: Salary
From (blank for beginning)	: 1-5-2020
To (blank for end)	: 31-5-2020
Employee Category	: Primary Cost Category
Employee/Group	: ♦ All Items
Sort by	: Employee Name
Payroll/Bank/Cash Ledger	: [Empty field]

On the right side, a 'List of Ledger Accounts' window is open, showing a list of accounts. The 'Salary Payable' account is highlighted in yellow. The list includes:

- BOB Savings A/c
- Cash
- DBS Bank A/c
- ESI Payable
- HDFC Current A/c
- NPS Payable
- PF Payable
- Salary Payable
- SBI OD A/c

11. Enter the **User Defined Pay Head** values. such as Variable Pay or Salary Advance Deductions.

12. Enter the Narration, if any. By default, the payroll voucher shows the pay period in the Narration field.

Payroll Voucher Creation		National Enterprises		X	
Payroll No. 3				31-May-2020 Sunday	
Status		: Payroll autofill (Salary)			
Account : Salary Payable Cur Bal: 0.00 Cr					
Particulars					Amount
Primary Cost Category					2,59,986.00 Dr
Adarsh Kumar					86,662.00 Dr
Basic Pay	60,000.00	Dr	Cur Bal: 7,80,000.00 Dr		
Conveyance	5,000.00	Dr	Cur Bal: 65,000.00 Dr		
DLI Contribution @ 0.5%		Cr	Cur Bal: 0.00 Cr		
EDLI Admin Charges @ 0.01%		Cr	Cur Bal: 0.00 Cr		
Employee's ESI Contribution @ 1.75%	1,558.00	Cr	Cur Bal: 29,004.00 Cr		
Employee's PF Contribution @ 12%	780.00	Cr	Cur Bal: 10,140.00 Cr		
House Rent Allowance	24,000.00	Dr	Cur Bal: 3,12,000.00 Dr		
Overtime Pay		Dr	Cur Bal: 5,00,000.00 Dr		
Maresh Yadav					86,662.00 Dr
Basic Pay	60,000.00	Dr	Cur Bal: 60,000.00 Dr		
Conveyance	5,000.00	Dr	Cur Bal: 5,000.00 Dr		
DLI Contribution @ 0.5%		Cr	Cur Bal: 0.00 Cr		
EDLI Admin Charges @ 0.01%		Cr	Cur Bal: 0.00 Cr		
Employee's ESI Contribution @ 1.75%	1,558.00	Cr	Cur Bal: 1,558.00 Cr		
Employee's PF Contribution @ 12%	780.00	Cr	Cur Bal: 780.00 Cr		
House Rent Allowance	24,000.00	Dr	Cur Bal: 24,000.00 Dr		
Overtime Pay		Dr	Cur Bal: 0.00 Cr		
Rakesh Kumar					86,662.00 Dr
Narration:					
Pay Period : 1-May-2020 to 31-May-2020					
					Accept ?
					Yes or No

13. Accept the screen. As always, you can press **Ctrl+A** to save.

## **PAYROLL STATUTORY UNITS:**

Payroll statutory units are legal entities that are responsible for paying workers, including the payment of payroll tax and social insurance. A payroll statutory unit can pay and report on payroll tax and social insurance on behalf of one or many legal entities, depending on the structure of your enterprise.

<b><u>Payroll Statutory Details</u></b>	
<b><u>Provident Fund</u></b>	
Company Code	: KAFBD0012345012
Company Account Group Code	:
Company Security Code	:
<b><u>Employee State Insurance</u></b>	
Company Code	: 12345/23457
ESI Branch Office	: Koramangala
Standard Working Days (per month)	: 26 Days
<b><u>National Pension Scheme</u></b>	
Corporate Registration Number	: 1268941
Corporate Branch Office Number	: 3954175
<b><u>Income Tax</u></b>	
Tax Deduction and Collection Account Number	: KARA07884F
Income Tax Circle / Ward	: Bangalore (South)
Deductor Type	: Others
Name of Person responsible	: Rajesh
Son/daughter of	: Mr. Suresh Mehta
Designation	: CFO
(Note: All the above details will be used in Challan, Forms & Returns)	

## How do you enable statutory features of payroll?

**Step 1:** Use the following path to enable payroll statutory features in Tally.

**Step 2:** Choose the option F11: Features, under Gateway of Tally.

**Step 3:** Choose the statutory & taxation option under company features.

**Step 4:** Active the following details under statutory and taxation.

## HOW TO CREATE PAYROLL MASTERS:

1. **Gateway of Tally > Create > type or select Employee > and press Enter.** Alternatively, press **Alt+G (Go To) > Create Master > Employee > and press Enter.**

Employee Creation		National Enterprises	
Category	: Primary Cost Category		
English Name	:		
Display name in reports as Under	: ♦ Primary		
Date of joining	: 1-Apr-2020		
Define salary details	: No		
Notes	:		
<b>General Information</b>		<b>Statutory Details</b>	<b>Passport and Visa Details</b>
Employee Number	:	Provide bank details	: No
Designation	:	Applicable Tax Regime	:
Function	:	Income Tax Number (PAN)	:
Location	:	Aadhaar number	:
Gender	:	Universal Account Number (UAN)	:
Date of birth	:	PF account number	:
Blood group	:	EPS account number	:
Father's/mother's name	:	Date of joining for PF	:
Spouse's name	:	PR account number (PRAN)	:
Address	:	ESI number	:
Phone no.	:	ESI dispensary name	:
E-Mail	:		
			<b>Contract Details</b>
			Passport number
			Country of issue
			Passport expiry date
			Visa number
			Visa expiry date
			Work permit number
			Contract start date
			Contract expiry date

2. Enter the **Name** of the employee. By default, the system displays the same value in the **Display name in reports as**.

3. Modify the **Display name in reports as**, if required.
4. Select the **Employee Group** in the field **Under**.
5. Enter the **Date of joining**.
6. Set the **Define salary details** option to **Yes**, and press **Enter** to open **Salary Details Creation** screen.
7. In the **Salary Details Creation** screen, you can specify salary details of an employee.

Name : Adarsh Kumar Under : ♦ Primary						
Salary Details						
Effective From	Pay Head	Rate	Per	Pay Head Type	Calculation Type	Computed On
1-Apr-2020	Basic Pay	45,000.00	Months	Earnings for Employees	On Attendance	Basic Pay
	House Rent Allowance			Earnings for Employees	As Computed Value	
	Conveyance	1,500.00	Months	Earnings for Employees	Flat Rate	
	Overtime Pay	600.00	Hrs	Earnings for Employees	On Production	
	Variable Pay			Earnings for Employees	As User Defined Value	
	Gratuity Expenses (Provisional)			Gratuity		
	Employee's PF Contribution @ 12%			Employees' Statutory Deductions	As Computed Value	Basic Pay
	Employee's ESI Contribution @ 1.75%			Employees' Statutory Deductions	As Computed Value	(Basic Pay + House Rent Allowance) + Conveyance + Overtime Pay
	Profession Tax			Employees' Statutory Deductions	As Computed Value	On Current Earnings Total

- The relevant **Pay Heads** from the **List of Pay Heads** in the Pay Head column, and enter values for the required pay heads.
- Define the **salary structure**, and press **Enter** to navigate to the **Employee Creation** screen.
- 8. Enter **remarks**, if any, in the **Notes** field.
- 9. Enter the employee's PAN in the **Income Tax Number (PAN)** column. When the PAN is not available, enter one of the terms given below, based on the corresponding reason:



- **PANAPPLIED** – If the employee has given a declaration stating that he/she has applied for PAN, but are yet to receive the same.
  - **PANINVALID** – If the PAN format provided by the employee is incorrect.
  - **PANNOTAVBL** – If the employee has not given any declaration or PAN number.
10. Enter the employee General Information, employee's Bank Details for salary processing, Payment Details, Statutory Details, Passport & Visa Details and Contract Details.

Employee Creation		National Enterprises	
Category	: Primary Cost Category		
English Name	: Adarsh Kumar		
Display name in reports as Under	: Adarsh Kumar : ♦ Primary		
Date of joining	: 1-Apr-2020		
Define salary details	: Yes		
Notes	:		
<b>General Information</b> Employee Number : 0063 Designation : Senior Executive Function : Sales Location : Bangalore Gender : Male Date of birth : 1-Jan-1990 Blood group : A1 Positive Father's/mother's name : Pravin Kumar Spouse's name : Geeta Address : #26, 9th Cross Road, Balaji Layout, SKN Colony, Bangalore Phone no. : 08025522552 E-Mail : adarsh.kumar@nes.com		Provide bank details : Yes <b>Statutory Details</b> Applicable Tax Regime : Tax Regime U/s 115BAC Income Tax Number (PAN) : AAAPA4532A Aadhaar number : 362634665475 Universal Account Number (UAN): 100000043634 PF account number : KA/BN/456789 EPS account number : KA/BN/456789 Date of joining for PF : 1-Apr-2020 PR account number (PRAN) : KA/BN/456789 ESI number : ESI 465 ESI dispensary name : Rajajinagar	<b>Passport and Visa Details</b> Passport number : ES326437323 Country of issue : India Passport expiry date : 1-Aug-2030 Visa number : S03234125235 Visa expiry date : 1-Aug-2030 <b>Contract Details</b> Work permit number : SEO23634637 Contract start date : 1-Apr-2020 Contract expiry date : 31-Mar-2021
		Accept ? Yes or No	

11. Accept the screen. As always, you can press **Ctrl+A** to save.



## **PAYROLL UNITS:**

As per the company requirement Unit of Measurement are created for the calculation of pay head.

The unit can be created into two types ;

- 1) Simple Unit
- 2) Compound Unit

**SIMPLE UNIT:** Simple unit contains day week, month hours pcs etc.

1. Go to **Gateway of Tally > Payroll Info. > Units (Work)** .
2. Select **Type** as **Simple** .
3. Enter the **Symbol** for the Unit.
4. Enter the **Formal Name** .
5. Provide the **Number of Decimal Places**

Unit Creation	
Type	: Simple
Symbol	: Hrs
Formal Name	: Hours
Number of Decimal Places	
<div>Accept ? Yes or No</div>	

**COMPOUND UNIT** : Compound Units include the unit which combination of two simple units like hours of 60 minutes.

In a Compound payroll unit you can combine two payroll units.

**For example**, a box of 10 Nos, a dozen of 12 Pcs, and an hour of 60 mins.

1. Go to **Gateway of Tally > Payroll Info. > Units (Work)** .

Unit Creation	
Type : <b>Simple</b>	Types of Units
Symbol :	Compound
Formal Name :	<b>Simple</b>
Number of decimal places : 0	

2. Select **Compound** in the field **Type** , and press **Enter** . In the **Conversion** field you can create the compound payroll unit.

Unit Creation		ABC Company	
Type : <b>Compound</b>	Current Date Wednesday, 30 Apr. 2008		
<b>Units with Multiplier Factors</b> (example: Kgs of 1000 gms)		Companies	
First Unit	Conversion	Second Unit	Units
Hrs	of 60	<b>Mins</b>	Dys (Days)
			Mins (Minutes)

3. Select the **First Unit** from the **Units** list. In this example, **Hrs** is the **First Unit** .
4. Specify the conversion factor in the **Conversion** field. In this example, the conversion factor is 60.
5. Specify the **Second Unit** from the **Units** list. In this example, **Mins** is the **Second Unit** .
6. Press **Enter** to save the compound payroll unit creation screen.

## **PAY HEADS:**

Pay heads are treated as expense liability with the employers point of view it is considered as Income /earning and deductions.

Example of pay head includes:

1. Basic pay
2. Dearness Allowance
3. House rent Allowance
4. Uniform allowance ,etc.

## **HOW TO CREAT PAY HEAD IN TALLY PRIME:**

1. **Gateway of Tally > Create > type or select Pay Heads.**
2. Alternatively, press **Alt+G (Go To) > Create Master > type or select Pay Heads > and press Enter.**
3. In case the master is inactive, you will be prompted to enable the payroll feature for your Company. Select **Yes** or press **Y** to proceed.
4. The **Pay Head Creation** screen appears as shown below:

Pay Head Creation		National Enterprises	
English	:		
Name	:	Overtime	
		<b>Total Opening Balance</b> 7,75,72,863.00 Dr 7,66,97,863.00 Cr Difference 8,75,000.00 Dr	
<div> <div> <b>Pay Head Information</b>  Pay head type : Earnings for Employees  Income type : <b>Fixed</b>  Under : Direct Expenses  Affect net salary : Yes  Name to be displayed in payslip : Overtime  Currency of ledger : ₹  Use for calculation of gratuity : No  Set / Alter Income Tax Details : No  Calculation type : As User Defined Value </div> <div> <b>Income Type</b>  Fixed  Variable </div> </div>			
Opening Balance ( on 1-Apr-2020 ) :			

5. Enter Pay Head name in the **Name** field.
6. Select **Earnings for Employees** as the Pay head type from the **List of Pay Head Type**.
7. Select the **Income type** for the Pay Head as one of the following types:
  - **Fixed:** This forms a part of the employee's Total Gross Salary. For example, Basic Pay.
  - **Variable:** This forms a part of the employee's Total Earnings only. For example, Overtime Wages.
8. Select **Indirect Expenses** from the **List of Groups** in the **Under** field.
9. By default, **Affect Net Salary** is set to **Yes**. Set this option to **No**, if you do not want this component to be included in the pay slip.

10. By default, the pay head component name entered in the Name field appears in the pay slip. Enter the **Name to display in Payslip** if you want to change the default pay head component name.
11. By default, **Use for calculation of gratuity** is set to **No**. If you want this pay head to be considered for Gratuity calculation, set this option to **Yes**.
12. In the **Income Tax Details** screen,
- Select **Other Earnings/Allowances (Fully Taxable)** as the **Income Tax Component**.
  - Select **On Actual Value** as **Tax Calculation Basis**, if the amounts applicable to this pay head vary each month, to rationalise and spread tax across the remaining period. If the amounts are fixed, select **On Projected Value**.
  - Set **Deduct TDS Across Periods** to **Yes** to deduct tax across the remaining period. If this is set to **No**, the entire tax is deducted in the same month.
13. Set **Exclude for ESI Eligibility** to **Yes**, if you want this pay head to be considered for ESI Calculation but not for ESI Eligibility.
14. Select **On Production** as the Calculation type from the **List of Calculation**. The field Production type appears.
15. Select the appropriate **Production type** from the **List of Production Types**.
16. Select the required rounding method from the **Rounding Methods list**, and enter the required rounding limit in the Limit field.

Pay Head Creation		National Enterprises	
English :		<b>Total Opening Balance</b>	
Name :	Overtime	7,75,72,863.00 Dr	
		7,66,97,863.00 Cr	
		Difference	
		8,75,000.00 Dr	
<b>Pay Head Information</b>			
Pay head type :	Earnings for Employees		
Income type :	Fixed		
Under :	Direct Expenses		
Affect net salary :	Yes		
Name to be displayed in payslip :	Overtime		
Currency of ledger :	₹		
Use for calculation of gratuity :	No		
Set / Alter Income Tax Details :	No		
Calculation type :	As User Defined Value		
Opening Balance ( on 1-Apr-2020 ) :		Accept ?	
		Yes or No	

17. Accept the screen. As always, you can press **Ctrl+A** to save.

Similarly, you can create pay heads for Piece Rate or Box Production.

## **PAYROLL DEDUCTIONS:**

Payroll deductions refer to the cost the employer deducts from the employee's Salary every month in the form of taxes or voluntary deductions. The employer withholds a certain percentage of the employees' Salary every month to cover contributions towards insurance premiums, investment plans, and retirement plans. While the government-mandated taxes, employee provident fund, employee state insurance, and TDS are compulsory deductions and implemented throughout the employee's tenure. These deductions are removed from the employee's total earnings, including bonuses and commissions.

**Let's take a deep dive into a few payroll deductions:**

- Provident Fund (PF)
- ESI (Employee state insurance fund)
- Professional Tax
- Income tax/TDS
- National Pension Scheme (NPS)

## **Payroll Deduction**



### **Involuntary Deduction**

- ✓ Fica Tax
- ✓ Federal Income Tax
- ✓ State & Local Tax
- ✓ Garnishments



## **STATUTORY COMPLIANCE IN PAYROLL:**

Statutory compliance refers to the legal framework put in place by the central or state government to regulate business operations. In this case, it's the framework surrounding payroll.

Every country has its set of payroll laws, and for business owners operating in that country, compliance is a must. Maintaining a spotless compliance record can benefit your business in many ways. It can facilitate business expansion within the country because you create trust with the government. It also shows that you know how to treat your employees well by adhering to labour laws.

In cases of non-compliance, there is a lot at stake for the businesses, such as monetary penalties and a tarnished brand reputation.

Therefore, dealing with statutory compliance requires companies to be well-versed with the labour regulations in the country of operation.





## **CONCLUSION:**

Payroll is simply an aggregation of total amount of wages paid by the company to its employees. It is one of the most significant expenses for businesses; hence it is very complicated expense for companies to process. Processing payroll slips is a very time consuming task and can be prepared weekly, semi - monthly or monthly depending upon the resources which the company has in its reserve.

Companies usually hire payroll services from third parties by way of outsourcing which make the process of accounting for payroll and easy and effortless task. Payroll service provider manages multiple tasks such as tax obligations, employee's time calculation, preparing checks and salary report management. It eventually reduces the operating cost of the business.