

This Factsheet discusses the facilities used by **SmoothPay** to transfer a *Journal Entry* of your *Wages Costs* to your *Accounting System* and introduces you to common accounting concepts and terminology - don't worry, it's pretty easy stuff.

Your *Ledger system* may also provide for individual *job analysis* as well (instead of *accounting analysis*), and the entries you make in **SmoothPay's Pay Input** can be analysed this way as well.

**SmoothPay** provides built-in support for *most current accounting systems*, including MoneyWorks, MYOB, Pastel, Astarla, QuickBooks, Profax, Accredo etc and anything not provided for can be requested - and usually supplied at no charge.

Please refer to the *Factsheets* available on our website for more detailed information about most of the supported *Accounting Systems*.

## How do I set up Ledge analysis?

Simply choose the System you're using in *Company Setup...Ledger Setup* and set the *Control Accounts* used in your system's *Chart of Accounts* (create these Accounts if necessary) for the eventual payment of *Net Pays, PAYE* etc.

In the *Ledger Setup* screen you can also specify a suitable Filename and location for the Costing File - created when the *GL Account Costing Account Analysis* is produced. Make sure it's in a location you can find easily from your *Accounting System's import* screen.

## How do I analyse Employee Wage Costs?

When you're making *Time* and *Allowance entries*, specify the *Account Cost Centre* to be charged with the *cost of each entry* (you can also specify a *Job Code* if used).

## How do I create the Ledger Costing File for my Accounting System?

When you produce the *GL Account Costing Account Analysis* during *Standard Reports (Step 3 of the usual Pay Process)*, or at any time after the Pay has been processed from *Reports...Costing Reports...Ledger Costing Report*, the file you specified in *Ledger Setup* will be created, containing *Journal Entries* that charge the *Cost Centres* you specified in *Pay Input*, and crediting the control accounts established in *Ledger Setup*, as illustrated by the following *T-Chart* (an accounting device used to show how transactions are applied):

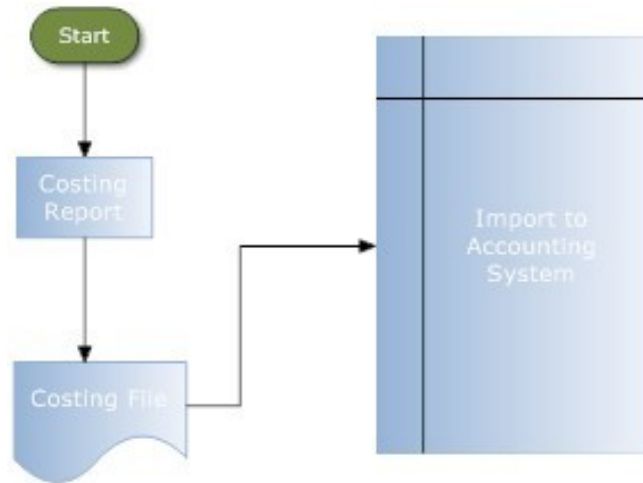
Debits		Credits	
Cost centre 1		Control account 1	
Admin wages	1500.00	Net pays	7500.00
Cost centre 2		Control account 2	
Workshop wages	7000.00	PAYE	950.00
Cost centre 3		Control account 3	
Commissions	450.00	Deductions	500.00
And so on...		And so on...	
TOTAL	8950.00	TOTAL	8950.00

*A T-Chart showing how journal entries are created to charge your wages cost centres and credit control accounts*

So, the file created by **SmoothPay** will contain charge *entries (Debits)* against the *Cost Centres* you specified in *Pay Input*. It will also contain *Credit Entries* for the *Control Accounts* specified in *Ledger Setup*. The *net* result of all these transactions will be ZERO! This is called a "*Journal entry*", charging one account and crediting another (other than your Bank Account), and is used in Accounting Systems to re-arrange internal costs.

## Show me a worked example of what happens...

OK, the following example illustrates the process, using the example T-Chart provided above.



The transactions that get imported into your Accounting System are as follows (the Account Codes we've used are fictional examples only, and we've used CC for Cost Centre and CA for Control Account):

Account code (examples only)	Account name	Debit (or -Credit)
CC1, or 1234-567 etc	Admin wages	1500.00
CC2	Workshop wages	7000.00
CC3	Commissions	450.00
CA1	Net Wages Control	-7500.00
CA2	PAYE Control	-950.00
CA3	Wages Deductions Control	-500.00

**NOTE:**

- the total of all transactions, if added together, comes to ZERO!
- none of the Accounts specified is a Bank Account (unless you have specially requested that individual bank entries are also made for Employee's Net Pays, but for now we'll just keep it simple).

It is important to understand that the *Journal Entries* simply charge out your Wages Costs, and Credit Control Accounts from where your Wages and any Deductions actually get paid out in your Accounting System.

This causes the balances in the *Control Accounts* to become zero when all payments have been made, as in the following T-Chart examples:

## Net Pay Payments by Direct Credit and Cheque

Obviously, your Employees need to be paid - and they don't receive their *Gross Pay* - just the portion left after *PAYE* and any other *Deductions* have occurred. This is their *Net Pay*.

In this example, one Employee receives a cheque, and the rest of your Employees are paid by Direct Credit (which normally appears as a single total on your bank statement). The total of your Net Pays are \$7,500.00 in this example.

The cheque(s) may be processed via your Creditors Input, Cashbook Expense Input or via your Bank Reconciliation procedures:

Debits		Credits	
Control Account 1		Bank account	
Joe Bloggs	250.00	BANK	250.00

The direct credit entry(s) may be again be processed via your Creditors Input, Cashbook Expense input or via your Bank Reconciliation procedures:

Debits		Credits	
Control Account 1		Bank account	
Direct credit pays	7250.00	BANK	7250.00

Then, when it comes time to reconcile these items with your Bank Statement - it's easy.

## Paying PAYE to Inland Revenue Department

The cheque or direct credit payment for IRD for the month may be processed via your Creditors Input, Cashbook Expense input or via your Bank Reconciliation procedures:

Debits		Credits	
Control Account 2		Bank account	
Inland Revenue	950.00	BANK	950.00

## Paying out the Other *Deductions* that have been Taken from Employee Wages

Other Deductions may occur, being payments for Union Fees, Debt Payments being made on behalf of the Employee, Superannuation Payments etc.

It is VERY IMPORTANT to note that the Deductions you make from an Employee's wages ARE NOT YOURS, even if the final destination is your Company's Debtors System for internal purchases and charges. You have to consider these Deductions as being held IN TRUST.

In this example, we'll disburse the Deductions collected to a Union, a Super Scheme, the Courts, and Internal Debtors (eg workshop tools etc).

The Cheques or Direct Credit Payments for each of these Deductions collected may be processed via your Creditors Input, Cashbook Expense input or via your Bank Reconciliation procedures:

Debits		Credits	
Control Account 3		Bank account	
The union	50.00	BANK	50.00
Super scheme	300.00	BANK	300.00
Courts	25.00	BANK	25.00
Your company	25.00	BANK	25.00

**“BUT!” we hear you exclaim, we're writing ourselves a cheque (or direct crediting ourselves!) - whats with that?”**

The answer is quite straight forward - most accounting systems don't let you analyse a Journal Entry direct to your Debtors System - usually because there's insufficient information in the Journal File to support the transaction (like the customer number, the invoice being paid etc).

And remember - it's not your money until you receive payment (not the same as holding on to a deduction!!!)

So, whether you've direct credited a payment to yourselves (the Company), or written a cheque, you now have the means to accept that payment into your receipting system and credit the payment against your Customer Account.

**Internal Customer Account Payments – I just want to do it the easiest way ...**

OK, the best way is to use a *Group Scheme* (refer to the *Group Schemes Factsheet* on our website or contact the **HelpDesk**) to collect payments from Staff owing money to the Company.

*Group schemes* provide a really easy way to collect amounts and *automatically reduce the amount owed* until it's paid off - it then *stops automatically* too.

These amounts should be individual per Employee, paid by Direct Credit to the Company Bank Account, and the entries should contain the Employee's Customer Code so you can receipt the amounts easily from your Bank Statement and credit the individual Employee's Customer Accounts.

Alternatively, you could write a cheque to your Company (from your Company), then process it through your normal receipting processes - don't like this method much as it seems more futile, but imagine that it was the Employee paying you by cheque - same thing really.

Of course you could always just have the Employee pay his Account the same as any other customer...but that wouldn't be as efficient.

## How do I allocate PAYE to each Department or Cost Centre?

You don't!

This is a very common accounting error and is completely unnecessary.

PAYE is an "*agency collection*" - you are simply collecting tax on behalf of the IRD from the Employee. It doesn't cost your Company anything at all. An example may help you understand:

- Your Employee, Joe, is paid \$15 per hour and works for 40 hours. Joe's *GROSS PAY* is \$600.
- From this is deducted \$150 *PAYE*, leaving Joe a *NET PAY* of \$450
- You pay Joe \$450 and hold on to the \$150 *PAYE* that you deducted until it's time to pay it over to the IRD
- How much did it cost to employ Joe? \$600, which is the amount you would charge to the Cost Centre for wages in your accounting system - not \$450, as you are simply collecting part of Joe's wages to pay on to the IRD. Hope that's clear.
- The same applies to any and all amounts withheld from Employee's wages, be they Union Fees, KiwiSaver Deductions, Court Fines etc.

We certainly hope you find this Factsheet useful, and can apply it effectively to streamline your work.

Feedback and discussion is always welcomed - it's how we create systems that work best for you.

**\*END\***