This guide is intended for staff who are unfamiliar with payroll and/or accounting processes and those who wish to understand how these processes can be simplified.

This step-by-step guide shows you the basics of Payroll Accounting, including:
- setting up your Accounting Codes,
- using them in Pay Input to allocate wage costs, and
- transferring the wage costs to your accounting system
- GST processing (for registered employees and independent contractors)

The illustrations and examples use SmoothPay/Gold Payroll, and MoneyWorks accounting products in an Australian payroll and accounting environment, however the concepts apply equally to most other payroll and accounting systems, and countries.

Apart from mistakes or localised usage and abbreviations, UK English is used throughout our documentation.

GST is used to refer to GST, VAT and similar tax systems.

SmoothPay provides an elegant, simple solution to the complications of payroll accounting: It does not and will not create individual creditor payment entries in your accounting system (a huge privacy risk), instead generating a simple journal entry per pay period which debits your wage cost centres (and departments and jobs if used) and credits one or more holding accounts. These holding accounts are where net pays, tax and any deductions are charged when making payments to staff, ATO, unions etc.
## Glossary of terms

There are a number of terms that non-accounting people might not be familiar with, so here's a list of common terms we use to describe various things:

<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
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<tbody>
<tr>
<td><strong>Cost Centre</strong></td>
<td>This is an &quot;Account&quot; in your accounting system's Chart of Accounts - usually an Expense Account. It is common to use the term Cost Centre instead of Account, as the term Account can be confused with a &quot;Bank Account&quot; and/or a Customer Account, or an “Account” from a supplier etc, all of which are quite different things. Also, wages are a &quot;cost&quot;, so it makes practical sense to call the account to which it is charged a &quot;cost centre&quot;, and avoid the confusion over all the types of &quot;accounts&quot; you'll come across in accounting.</td>
</tr>
<tr>
<td><strong>Holding Account</strong> (also, Control Account or Suspense Account)</td>
<td>These are used to &quot;hold&quot; amounts deducted from employee's wages, such as PAYG, Union Fees, voluntary super deductions, debt repayments etc. and may also be used to &quot;hold&quot; the remaining Net Pay amount to simplify your accounting entries (we'll cover that shortly). These “held” amounts get paid later to the agency to whom the deduction belongs (e.g. ATO, Union, Super Fund etc). Holding accounts are typically established as Current Liability (CL) accounts in your Chart of Accounts (though in reality they can be pretty much any kind of account at all). When it comes time to pay the ATO or the Union, simply create a payment as usual, and charge the amount against the appropriate Holding Account. GST is another example of a Holding Account (or accounts). The content is stripped from transactions, placed automatically into the appropriate Holding Account, and the total is later paid out to ATO.</td>
</tr>
<tr>
<td><strong>Journal entry</strong></td>
<td>Refers to a fully-balanced sequence of debit and credit entries, which effectively transfers costs to cost centres and credits to Holding Accounts which will be paid out later on. There is an example in Costing Transfers, Method 2 below. Journal entries are also often used to transfer misallocated amounts from one cost centre to another, or to cater for overhead cost allocation between departments, and a whole bunch of other accounting stuff.</td>
</tr>
<tr>
<td><strong>Direct Credit</strong> (also EFT)</td>
<td>Payment by electronic funds transfer, either manually using the bank’s website/phone banking or forms, or using an ABA (bank transaction) file to transfer all payments in a single batch. These expressions are used interchangeably in most countries.</td>
</tr>
<tr>
<td><strong>Accounting Codes</strong></td>
<td>The expression “Accounting Codes” covers all of the cost allocation codes that might be used, including: • Cost Centre (Expense account) • Department (budget group) • Job • Activity Some systems may not provide all of these analysis options, and you only need to use the one’s that suit your business and accounting requirements.</td>
</tr>
</tbody>
</table>
Setting up your accounting codes

When you first start using SmoothPay, the best place to start is setting up your Codes (refer to our Getting Started guide for initial setup steps).

If you’re a MoneyWorks user, then most of this work is automated and avoids tedious re-typing, by using Configure..Accounting..Tools.

Begin by setting up the cost centres (includes holding accounts), job codes, departments and other accounting settings. Otherwise, you can do this manually as follows:

When you start SmoothPay, the Control Centre is displayed:

Choose the Codes tab, then select Cost Centres from the drop-down list:
TIP: Edit these codes to match their equivalents in MoneyWorks, then add any additional codes and cost centre descriptions you think you might need (this is way quicker than deactivating the default set of codes and manually adding codes that do the same thing as the sample cost centres provided).

Better than that! You can quickly copy all the required cost centres, holding accounts, jobs and departments directly from MoneyWorks by using SmoothPay’s Config..Accounting..Tools.

Note that the ORANGE codes are Holding Accounts - the colour coding makes it easy to see how cost centres have been set up.

Repeat for Jobs and Departments (if you use them).

WARNING: If you do not set these items correctly, automatic costing transfers and costing file imports will probably fail, in which case you can easily edit/change the codes and re-export the costing file with the correct code information in it.

Advanced users may also like to utilise the “Activity” codes, which are provided so that you can have a really fine-grained analysis of employee’s activities, however it serves no function in MoneyWorks or most other systems, but may be useful for custom exports to billing systems etc.

SmoothPay is happy to customise their software, so please feel free to enquire if you need that “something special” to make your business processes faster and easier to manage.

Configuration..Accounting

This is where your initial defaults are set for new employees (so it’s REALY IMPORTANT that you have these settings correct before you start adding employees), and also where you establish your accounting defaults and options.

Choose Configure..Accounting:
Note that you can test communication with MoneyWorks from this screen (via the *Tools* options) - it'll tell you if there are any problems.

For manual import and automatic costing transfers to work, you must have the correct MoneyWorks document open, the Cost Centre codes, Department codes (if used), and Job Codes (if used) that you have used in SmoothPay must match their counterparts in MoneyWorks.

You’ll also find a link to the *Accounting Guide* (specifically for MoneyWorks), a companion document to this one.

Set your **holding accounts** as required (if they’re not showing up in the lists, go back to *Codes..Cost Centres* to correct them, or import the correct holding accounts via the *Tools* options).

For **GST processing** options, see the GST Processing section at the end of this document.

Set your **default cost centre** for wages costs, and optionally job and activity if you want to). These will be applied as standard settings for new employees. Again, if the code you need isn’t there, go back to *Codes..Cost Centres* and make corrections).

The *Tools* options provide a quick way to test your MoneyWorks connection and to copy account, job and department lists to SmoothPay:

Here’s an example of how the easy-to-use MoneyWorks integration makes it easy to copy just the required items from our MoneyWorks accounts list is achieved:

Choose *Config..Accounting..Tools, Select cost centres*
When you have made your selections, choose OK and they'll be transferred automatically to SmoothPay, ready to use. Repeat for Jobs and Departments (if used).

**Using accounting codes in Pay Input to allocate wage costs**

Every entry you make in *Pay Input for Time, Leave and Allowances* lets you set the Cost Centre, Department, Job and Activity. You don't have to use any or all of these options - just the ones you need.

You can make as many entries as you need (there’s no practical limit), therefore your costing analysis can be as extensive (or as simple) as you like.

**Note:** There are other, efficient, methods of getting time and attendance data into SmoothPay.

- You can use the CSV import file format to load new employees and timesheets (refer to the CSV Import (Staff & Time) guide), and/or
- you can import data directly from your timeclock (*SmoothPay has built-in support for CS TimeClocks, Schlage HandPunch units, WorkflowMax etc.*), and/or
- you can (and should) establish “**Standard Pay**” entries that get used automatically anytime an employee is selected to be paid, otherwise you need to constantly re-enter pay information every period, and/or
- you can use the built-in Timesheet screen - use Ctrl+T (⌘+T), then apply specific costing afterwards if you need to.
Transferring wage costs to your accounting system

There are two standard methods of transferring payroll costing information to your accounting system - select the one that works best for you:

Method 1: Payroll entries as "Payments" (Creditors)

This assumes you’re using a cashbook or express version of MoneyWorks, and if you have only one or two employees it’s probably the easiest method for you to use - it is *not recommended* for privacy reasons and for larger employers, where the Journal method should always be used instead.

An appropriate source for the payments would be the Pay Input Audit report (or each employee’s payslip). Both these are produced during the Standard Reports step of your normal pay process.

**Step 1.** Choose Cash & Banking..New Payment

**Step 2.** Complete using entries similar to those shown below:

![Payment Entry Example](image)

Some explanation of the entries might be in order...
We've charged (DEBITED) the gross cost of wages (the $800.00 entry) to the Wages EXPENSE account 3290 - you can have multiple cost centres representing the different areas an employee may work e.g. Kitchen Wages, Laundry Wages, Production Wages and so on.

Your Costing Report will show the breakdown of all cost centres used in your pay inputs for all staff for the whole pay period. If you have only one Wages cost centre then that's the only one you'll ever need to use.

We've CREDITED the PAYG deduction (the -300.00 entry) to the PAYG Holding account - it'll be paid out to ATO when it's time, and to do that you'll create a payment to ATO and charge the total due against the PAYG Holding account - which neatly offsets the credits you've been putting there each pay period.

Any other deductions would be credited (that's a -minus entry) to appropriate Holding Accounts that you might have set up (they're very handy, because you can easily see at a glance what your liability is for money you are holding for other agencies).

The net pay in this example is $500, and is the amount the employee will receive in their bank account (or cheque or cash).

**Method 2: Payroll entries as "Journal" entries, followed by one or more "Payment" entries**

This will work with whatever accounting system you're using, and is the default method by which SmoothPay Payroll expresses costing information, especially where automation of the process is used.

This method is recommended, as it greatly simplifies the number of accounting entries required, especially if you have more than one employee and multiple cost centres, departments, jobs etc., and it can be used to ensure privacy (you can consolidate the entries so that individual payments to staff cannot be identified in accounting).

Again, this example is illustrated using the Cashbook version of MoneyWorks, though the process is similar for other products.

**TIP for MoneyWorks users**: SmoothPay automatically generates a costing analysis file in a format suitable for import (Express or above) or direct transfer (Gold or above) to MoneyWorks - please refer to the MoneyWorks Integration guide for details on how to set this up.

**The Journal**

**Step 1.** Choose Cash & Banking..New Payment

**Step 2.** Complete using entries similar to those shown below:
Note that in this example we have selected "JOURNAL" as the transaction type. This ensures your entries a fully balanced - just like the Costing Report you get from SmoothPay.

As in the previous example, we've charged the gross cost of wages (the $800.00 entry) to the Wages EXPENSE account 3290 - you can have multiple cost centres representing the different areas an employee may work e.g. Kitchen Wages, Laundry Wages, Production Wages and so on.

Your Costing Report will show the breakdown of all cost centres used in your pay inputs for all staff for the whole pay period. If you have only one Wages cost centre then that's the only one you'll ever need to use.

We've CREDITED the PAYG deduction (the -300.00 entry) to the PAYG Holding account - it'll be paid out to ATO when it's time, and to do that you'll create a payment to ATO and charge the total due against the PAYG Holding account - which neatly offsets the credits you've been putting there each pay period.

Any other deductions would be credited (that's a -minus entry) to appropriate Holding Accounts that you might have set up (they're very handy, because you can easily see at a glance what your liability is for money you are holding for other agencies).

We have also CREDITED the net pay amount (-500.00) to the Net Pay Holding Account which we've set up in our MoneyWorks chart of accounts as a Current Liability (CL) account, same as the PAYG Holding account.
The result - costs charged where they need to go, and amounts to be paid-out sitting in Holding Accounts, ready to be paid.

In addition, employee payment privacy is assured.

**The Payments**

**Net Pay Holding**
Net Pay amounts are usually paid by Direct Credit (EFT), though staff may request cash or cheque payment as well.

The Net Pay figure will show up on your bank statement - cost it against the Net Pay Holding Account.

If you have told SmoothPay to withhold other deductions (such as Rent, Debt Repayment etc) and that those deduction amounts are to be direct credited to an agency every pay period, then the bank statement entry will include the payments, and you'll need to charge them against the appropriate Holding Account (*we suggest you use the Net pay Holding Account for all such deductions, as they’ll automatically be included in your ABA file, and therefore appear in the summarised cost entry on your bank statement*).

If any staff require payment by cheque, then they too should be charged directly to Net Pay Holding Account.

Cash? Draw a cash cheque and charge it against the Net pay Holding Account.

Your Net pay Holding Account should now have a zero balance, as you've disbursed all the funds it contained.

**PAYG and other withheld amounts**
These are usually paid each month, or sometimes quarterly.

Simply create the payment and charge it against the appropriate Holding Account.

The following example shows the entry of direct credited net pays from the bank statement:
Regardless of how many staff were paid, a simple, single entry is all that is required.

The entry can now be reconciled with your bank statement.

**Summary**

OK - Method 2 is overkill if you only have one employee, but think of the simplicity when you have 500 staff, multiple Cost Centres, multiple Departments, and multiple Jobs - the number of entries using Method 1 would be in the thousands!

Using Method 2, your entries are reduced to the significant few summarised totals - and if you have transaction import or automatic costing transfers turned on then you only need to concern yourself with the few simple payment entries each pay period, as the costing Journal will have been completed for you.
Finally, a couple of other bits and pieces you might find useful:

Smoothpay produces the **PAYG Activity Statement** for you - choose *Reports..Tax..PAYG Activity Statement*:

![PAYG Activity Statement](image)

You’ll find it much easier to reconcile and complete your BAS correctly.
SmoothPay's **Costing Reports** can be produced during each pay process, from the Standard Reports screen:

![Costing Reports Screen](image)

or, from *Reports..Pay..Costing Analysis* (there are two options, *(batch)* which reports for any selected batch, and *(date range)*):

![Reports Options](image)
From this report it’s easy to enter your costing journal, and of course you can import the costing analysis as a fully-balanced journal entry into MoneyWorks (Express or above has import facilities, Gold or above has automation facilities), so the entire process can be automated.
GST Processing

_Config..Accounting_ provides a setting for GST processing (if it’s not set, and you choose GST processing for an employee, SmoothPay will prompt you for how GST should be handled).

You only need to set this option if you employ contractors or GST Registered staff so that GST content of their earnings can be isolated for tax, invoice and GST claim purposes.

**GST amounts:** If you want SmoothPay to process GST for any staff or contractors, choose the most appropriate method from:

- **Exclusive:** entries you put in SmoothPay will *exclude GST* and SmoothPay will add it on automatically.
- **Inclusive:** entries you put in SmoothPay will *include GST* and SmoothPay will work out the GST content automatically.

GST value is determined from the GST setting specified for each Pay Input code (Codes..Time, Leave, Allowance etc codes). These GST settings are only available if you have selected a GST processing method in Config.

Individual GST-registered staff can be set to produce a payslip or Tax Invoice showing GST.

GST content will be automatically costed to the GST Account specified in _Config..Accounting_.

**Feedback**

We’re always keen to do better!

Any and all feedback is appreciated and if you feel we could include better examples, provide more explanation, provide references to additional information, make a process easier to use, or you spot something that isn’t working the way it’s supposed to - please let us know.