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## **PAYROLL**

1. Overview of Payroll
2. Creating Payroll Accounts
3. Creating Payroll Categories
4. Raising Payroll Cheques
5. Paying Superannuation Liability
6. The Payroll Report
7. The PAYG Report

**ATTACHMENT 1**

## 1. PAYROLL OVERVIEW

In your business you might employ a person permanently, seasonally or on a casual basis. If you withhold PAYG tax from your employee's wages, you will need a Tax File Number Declaration Form for each employee. You will also need to calculate superannuation and workcover for these employees.

If you hire a contract person on an hourly rate as contracted services they need to have an ABN and you will also need to add GST (no PAYG tax, no superannuation and no workcover) to their payment. There is a definition between being an employee or a contractor, please see attachment 1.

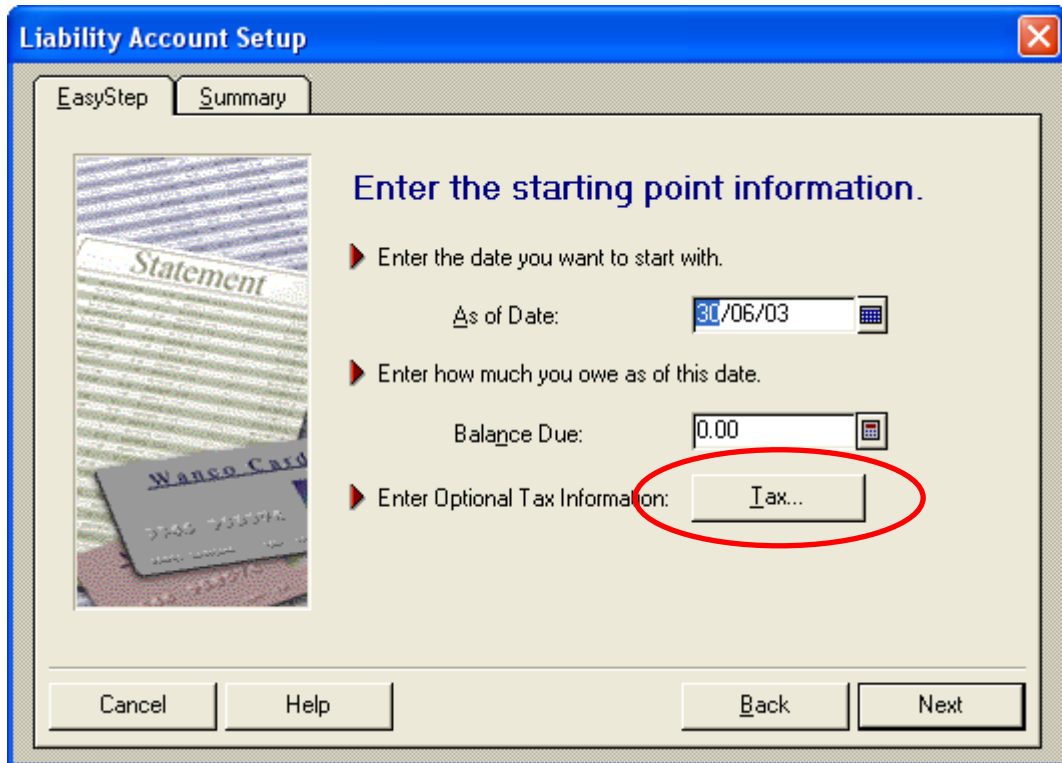
You will have to ensure your categories and accounts are set up correctly so that CashBook can report accurately when you make payroll payments.

## 2. CREATING PAYROLL ACCOUNTS

The tax that a business withholds from an employee's wage is accounted for in a liability account. Likewise the superannuation calculated for an employee is also accounted for in a liability account. We need to set up the Liability Accounts as shown below.

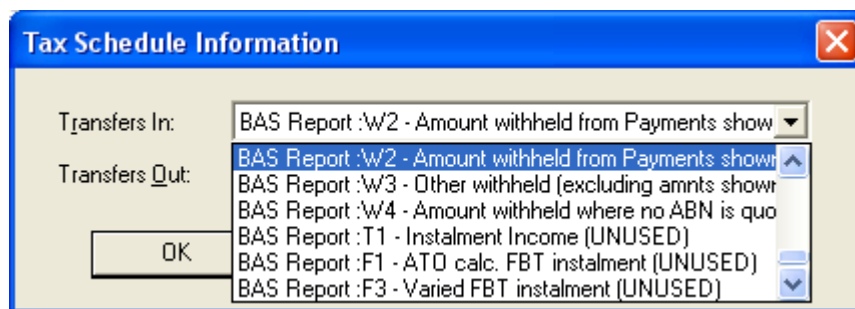
Amounts that are posted to these accounts represent money that we owe as liability payments outstanding to, either, the Taxation Office or a superannuation fund.

<b>Account Type</b>	<b>Account Name</b>	<b>Opening Balance at 30/6/03</b>
1. (Household) Liability	Payroll - PAYG Withholding Tax	\$0.00
2. (Household) Liability	Payroll - Employee Super Liability	\$0.00



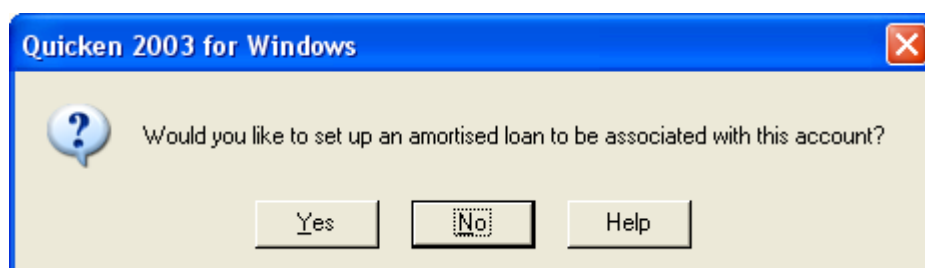
The Payroll – PAYG Withholding Tax account will need to have the Tax Line Assigned in “**Transfers In**” as “**BAS Report: W2 – Amount withheld from Payments shown at W2**” for these amounts to report to the PAYG report correctly.

To do this, when setting up the liability account, click the “**Tax**” button on the “**Enter the starting point information**” screen. Once you have done that select the “**Transfers In**” Tab and scroll to the bottom of the list to find “**BAS Report: W2 – Amount withheld from Payments shown at W2**”.



Alternatively, if you have already set up the account, select the Payroll - PAYG Withholding Tax **Account** in the account list and “**Edit**”, then click the “**Actions**” tab. Now link this account by setting the **Tax Attributes**. To do this set the “**Transfers In**”, as shown above.

To complete the account set up click “**No**” on the following screen:



### 3. CREATING PAYROLL CATEGORIES

What wages categories are called is important for the final reports to work. The CashBook Payroll report is dependant upon the categories containing the word **“Payroll”**, so first we will have a look at how the main expense category and the sub-categories have to be set-up to track wages.

Go to the Category List by selecting **“Finance/Category and Transfer List”**. You will need to create the following expense category and sub-categories:

Category	Type	Tax	Description	TC
<b>Payroll</b>	<b>Expns</b>	<b>Tax</b>		
Superannuation	Sub	Tax	Superannuation for Employees	
Gross Wages	Sub	Tax	Wages, Benefits ...	
Workcover	Sub	Tax	Workcover	

The Payroll, Superannuation and Gross Wages categories have a blank tax code, which means the amounts will not report with GST. Workcover will have both a 4 and 5 tax code so should be entered when doing the actual workcover transaction. The **“Gross Wages”** category is used to record the gross wages, including tax and the **“Superannuation”** category is used to track the compulsory 9% superannuation paid for employees.

As mentioned earlier, the **“Gross Wages”** category is linked to the W1 line on the PAYG Report and to do this you need to make sure, through the Category and Transfer list, that the following box has been ticked:

Select, by highlighting, the **“Gross Wages”** sub-category and click **“Edit”**. Complete the box by ticking it and then click **“OK”**. When gross wages are paid to employees the amount will now show up in the W1 field on the PAYG Report.

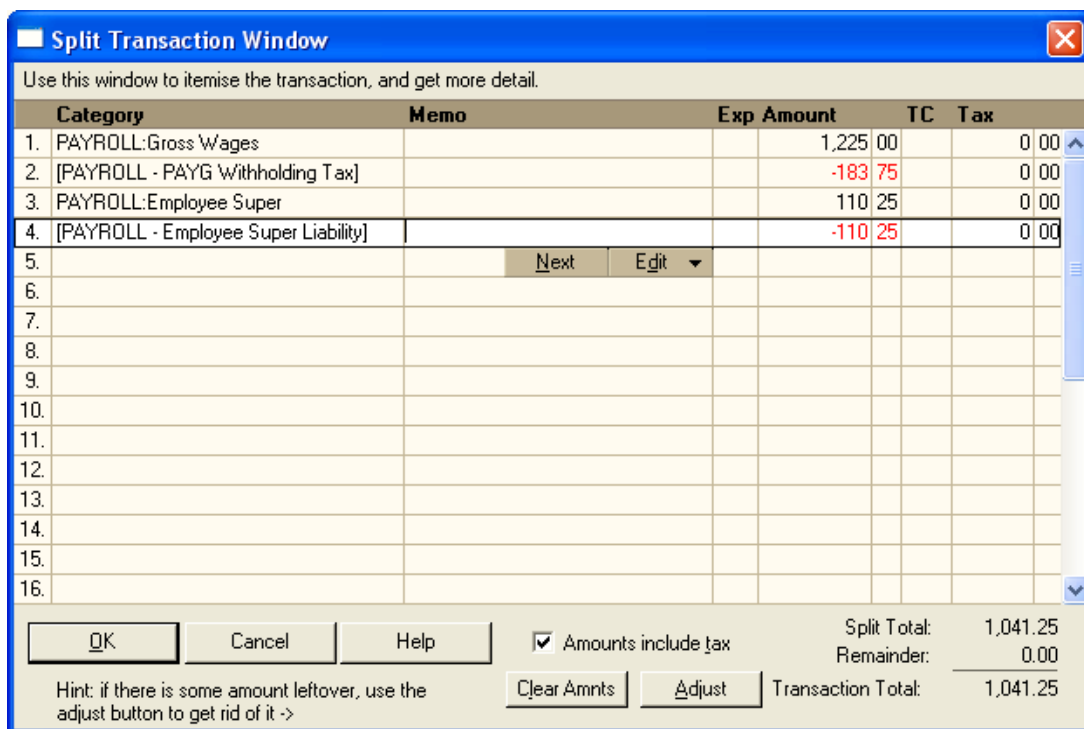
The **“Payroll - Superannuation”** sub-category does not need to be assigned a Tax Line, as it does not need to appear on either the PAYG or BAS reports.

## 4. RAISING PAYROLL CHEQUES

Once all the payroll categories and accounts have been set up correctly you are ready to raise payroll cheques. The following is an example of how wages are entered in the cheque account register. Remember to post the cheque to the register for the net amount as this amount is the actual amount paid to the employee, and therefore the amount of the cheque.

Payee: A. Worker  
 Net: \$1,041.25  
 Gross: \$1,225.00  
 Category: Payroll: Gross Wages  
 Tax: (-) \$183.75  
 Category: [Payroll – PAYG Withholding Tax]  
 Super: \$110.25 (9%)  
 Category: Payroll: Superannuation  
 Super: (-) \$110.25  
 Category: [Payroll – Employee Super Liability] - **Account**

Once the cheque has been entered in the register the split lines should appear as shown below:



Now check the results we have created in the various registers. In the Cheque Account register you will see the net payroll cheque written to the employee. In the Account List check the amounts have been transferred over to the respective liability accounts and then check the registers for these accounts.

Account	Type	Description	Trans	Current Balance	Ending Balance	Cheques
Cheque Account	Bank (T)		1	-AU\$1,041.25	-AU\$1,041.25	
PAYROLL - Employee Super Liab...	Liability (T)		2	-AU\$110.25	-AU\$110.25	
PAYROLL - PAYG Withholding Tax	Liability (T)		2	-AU\$183.75	-AU\$183.75	
Tax Control	Tax	Tax to pay/receive	1	AU\$0.00	AU\$0.00	

When entering the transactions you could also enter the employee's Tax File Number and Superannuation Fund numbers in the memo field for future reference.

## 5. PAYING SUPERANNUATION LIABILITY

As you will see the Payroll - Employee Super Liability account now has a balance of \$110.25, which is owed to the employee's superannuation fund. The next step is to pay the superannuation amount outstanding. In the cheque account register write out the cheque as shown. After entering check the Super Liability account register again, it should be back to \$0-00.

Payee: AMP Super Fund

Total: \$110.25

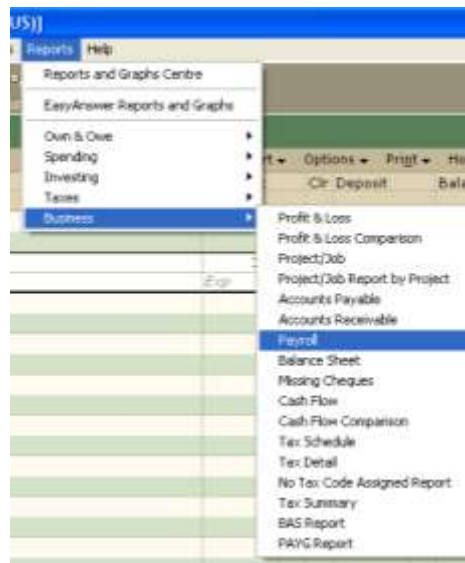
Category: [Payroll – Employee Super Liability] – this is actually just a transfer from the cheque account to the Payroll – Employee Super Liability account.

Category	Memo	Exp Amount	TC	Tax
1. [PAYROLL - Employee Super Liability]		110.25		0.00
2.	Next Edit			
3.				
4.				

## 6. THE PAYROLL REPORT

If all transactions are entered as explained in sections 1 – 5, at the end of the financial year, or BAS period, you should be able to produce an accurate Payroll Report to confirm details in the PAYG report. This report can be used to complete PAYG Payment Summary forms for employees at the end of the financial year and also to aid in completing workcover obligations.

To produce the payroll report you will select “**Reports / Business / Payroll**” as shown:



The report will show all transactions for employees where there have been amounts recorded as shown:

Quicken 2003 CashBook - NEW 2003 FILE - [Payroll Report]

File Edit Finance Banking Investing Household Taxes Paying Business Reports Help

Back Update Calc Print Custom

Payroll Report

Customize Memorise Copy

Year to date From: 1/07/03 To: 30/08/03 Column: Payee

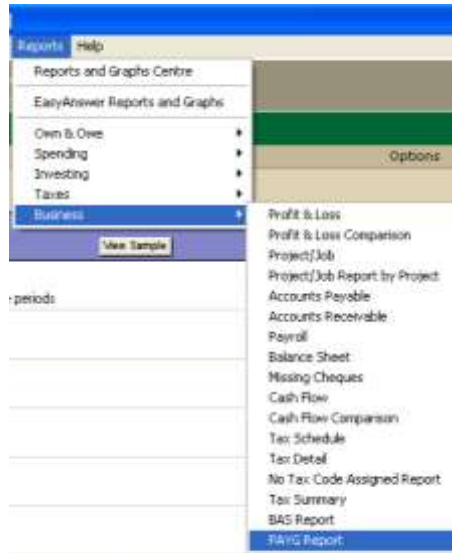
### Payroll Report

1/07/03 Through 20/08/03 (in Australian Dollars) (Cash Basis)

Category Description	A. Worker	AMP Super F...	OVERALL TOTAL
<b>EXPENSES</b>			
<b>PAYROLL</b>			
Employee Super-Superannuation	110.25	0.00	110.25
Gross Wages	1,225.00	0.00	1,225.00
<b>TOTAL PAYROLL</b>	<b>1,335.25</b>	<b>0.00</b>	<b>1,335.25</b>
<b>TOTAL EXPENSES</b>	<b>1,335.25</b>	<b>0.00</b>	<b>1,335.25</b>
<b>TRANSFERS</b>			
FROM PAYROLL - Employee Super Li...	110.25	0.00	110.25
FROM PAYROLL - PAYG Withholding T...	183.75	0.00	183.75
TO PAYROLL - Employee Super Liabil...	0.00	-110.25	-110.25
<b>TOTAL TRANSFERS</b>	<b>294.00</b>	<b>-110.25</b>	<b>183.75</b>
<b>OVERALL TOTAL</b>	<b>-1,041.25</b>	<b>-110.25</b>	<b>-1,151.50</b>

## 7. THE PAYG REPORT

The PAYG Report is used to compile information to lodge your BAS return. In this version of CashBook, to produce a PAYG report select “**Reports / Business / PAYG Report**” as shown:



The report will produce the correct figures needed to complete sections W1, W2, W5 and 4 for the BAS return for the period.

Quicken 2003 CashBook - NEW 2003 FILE - [PAYG Report]

File Edit Finance Banking Investing Household Taxes Planning Business Reports Help

Back Update Calc Print Custom

**PAYG Report**

Customize Memorise

**Pay As You Go withholding for the period 1/07/03 to 30/09/03  
(Cash Basis)**

Total salary, wages and other payments (user specified categories)	<b>W1</b> \$	<input type="text" value="1 2 2 5"/>	00	Other amounts withheld (excluding any amount shown at W2 or W4)	<b>W3</b> \$	<input type="text" value="0"/>	00
Amount withheld from payments shown at W1	<b>W2</b> \$	<input type="text" value="1 8 3"/>	00	Amount withheld where no ABN is quoted	<b>W4</b> \$	<input type="text" value="0"/>	00
Total amounts withheld W2 + W3 + W4	<b>W5</b> \$	<input type="text" value="1 8 3"/>	00	=	<b>4</b> \$	<input type="text" value="1 8 3"/>	00

**Pay As You Go instalment for the period 1/07/03 to 30/09/03**

Instalment income (user specified categories) **T1** \$  00

NOT FOR LODGEMENT

## ACCOUNTANT'S VIEW

# Employees or contractors: how to tell the difference

By SCOTT PATTERSON

**T**HERE was a time when most farming enterprises of any size had at least one full-time employee, sometimes several.

But ever-increasing pressure on farming margins has resulted in a trend away from employing full-time employees to using casual labour or contractors. By using 'outside labour' at only those times when it is absolutely necessary, some farmers may realise considerable savings.

Outside labour usually comes in the form of casual employees or contractors. How do we define employees as opposed to contractors?

Individuals who supply labour under your direction and use your tools or vehicles can usually be considered employees.

Contractors often have their own equipment and employees, and usually work under their own direction (for example, contract harvesters use their own equipment, supply labour, expertise and equipment).

Arguably, more than 50% of the money earned from this kind of contract harvesting is for using equipment rather than for labour content.

Shearing contractors are genuine contractors. They are often in charge of the shearing shed and responsible for employing teams of shearers and shed hands.

Determining who is a contractor and who is not can be a matter of self-assessment and judgment based on facts.

So, what are the differences for employers between engaging the services of an employee or a contractor?

**AWARDS:** There are several differences between employees and contractors. Most people who work in agriculture

(whether full-time, part-time or casual) are covered by a state or federal award.

This may vary between states. If unclear about the relevant award for your particular situation, phone your state farmer organisation to check the details, or check out the government information site at <[www.business.gov.au](http://www.business.gov.au)>.

**WORKERS' COMPO:** Workers' compensation insurance is another consideration.



Shearing contractors are genuine contractors, they are often in charge of the shearing shed and are responsible for employing teams of shearers and shed hands.

This varies between states, but all states require workers' compensation cover.

While generally applicable to employees, in some cases it is the employer's responsibility to cover some contractors — particularly if they do not have their own employees or workers' compensation cover. This should be reviewed for each particular situation.

**SUPER:** If an employee earns more than \$450 in a calendar month, the employer is required to pay superannuation contributions on behalf of the employee under the superannuation guarantee legislation.

Payment of superannuation generally does not apply to contractors. However, contractors may be considered employees if they provide labour personally and the labour content represents more than 50% of the total amount received.

This decision is again based on self-assessment. If (as in the case of the shearing contractor) they employ others to perform the work, then the superannuation legislation may not apply.

**PAYG AND GST:** If you engage employees, PAYG withholding tax must be withheld from the wages or salary and remitted to the tax office.

If you employ contractors registered for GST, you need to pay GST as part of the contract price, which you will then be able to claim an input tax credit on, in your next business activity statement.

**UNFAIR DISMISSAL:** Employers should exercise care when terminating employees. Unfair dismissal legislation needs to be taken into account.

Administration savings are a major reason that using contractors has outpaced using employees in some areas of farming in recent years.

Whether engaging contractors or employees, ensure everything is done correctly. Not complying can have unpleasant consequences. ❖

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Scott Patterson is a farm accountant with Power Tynan, Toowoomba, Qld, and is the CPA Australia Queensland rural spokesperson.

**Source:** Scott Patterson writes a monthly column for Australian Farm Journal. The magazine is available by subscription by ringing 1300 131 095 or emailing ([subscriptions.netcirc@ruralpress.com](mailto:subscriptions.netcirc@ruralpress.com)). The magazine is also available from most country newsagents or general stores; if not there the newsagent should be able to order in for you.