

What is Payroll - Process, Risks, Benefits

One of the main reasons why people work is to earn money. In companies, there is a process in how they pay their employees for the work they do. This is commonly referred to as payroll. And payroll processing is one of the most crucial roles of the Human Resource department. Part of [HR planning](#) is how to get this done efficiently and accurately. After all, payment is a serious business, so one cannot afford to make a mistake in this.

What Is Payroll?

Payroll refers to the list of employees that are paid for their work by the company that employs them. The amount of money that they receive depends on the work they do. Moreover, the payout varies from one company to another, as it either occurs once or twice a month. The methods also vary as some companies just deposit the payment into their employee's bank accounts, hand them a check, or simply give it as cash.

How to Do Payroll

To do the payroll process properly, here are ten steps to go about it and pay everyone for their work.

Collect Employee Information

To create a list of employees for your payroll, you need to start by gathering their information. That includes their names, contact information, email address, and social security number. You can do this by asking them to present a copy of their government IDs for you to keep.

Choose a Payroll Schedule

As mentioned earlier, the payroll schedule varies from one company to another. There are about four common kinds of [payroll schedules](#): weekly, bi-weekly, semi-monthly, and monthly. Choose whatever schedule works for your company, and can accommodate the time you have to render the payment to the employees.

Collect Timesheet

A timesheet refers to the record of the time employees spent working. Using this, you can determine how much the employee has earned fairly and accurately. As per [agreement](#) with the employee, you will pay their daily rate if their timesheet shows that

they rendered the mandatory working hours, and have the right to deduct or add money if they did under time or overtime.

Calculate Hours Worked

Figure out the daily rate of your employees by calculating the hours they have rendered during workdays. Just collect their timesheet, look at their start as well as the end time, and check how much they are paid by the hour.

Calculate Gross Pay

Once you've checked the timesheet and their pay grade, the total sum you get is called the gross pay. It refers to the amount of money your employees have made before it is deducted by taxes, tardiness, and undertime.

Calculate Withholdings and Deductions

This refers to deducting money from the gross pay of the employee based on taxes, tardiness, and undertime. The taxes vary from one country to another as well as from the employee's pay grade. You can determine the deductions by checking on the employee's timesheet and see whether they were late or if they did undertime.

Calculate Net Pay

This refers to the payment that the employee gets to take home. The net pay is calculated by taking the gross pay and then deducting it with the withholdings as well as other necessary payroll deductions.

Write Paychecks

Also known as a payslip, paystub, or paycheque, a paycheck refers to the document that presents the gross pay, the deductions, additional incentives, and the net pay of the employee. These paychecks are made to maintain transparency with the employee and explain their net pay.

Record Payroll

Keep a record of the payroll in your workplace so that both you and your employee have proof that these transactions have taken place. You can opt to store it online, or keep a physical copy of the payroll.

File and Pay Payroll Taxes

File and pay the taxes after collecting them off of the employee's payments, lest your company gets into trouble for tax evasion.

How to Process Payroll

Manual

In case a computer software or service is not available, then you can follow the steps mentioned above and do them manually. While the advantage of this is that you know when and how the payroll is done, doing payroll manually can lead to human error and take a lot of time.

Software

[Digital transformation](#) is being embraced by many organizations today. Nowadays, a lot of companies use software to help them calculate everything for payroll. The advantage of this is that it takes less time, and there is no room for human error. You may process payroll by investing in software to assist in the procedure.

Service

Another way to process payroll is to hire someone who does it as a service. If you have the [budget](#) for it, hire an accountant to do the payroll for you. Accountants may be expensive, but their service is certainly worth the cost.

Risks to Avoid During Payroll Process

While doing payroll, it is important to be aware of the possibilities of things going wrong. Payroll involves money, so it is important that everything is done accurately and securely.

Not Managing Payroll Records Correctly

If payroll records are not organized properly, it could give everyone a lot of trouble. Manage the records properly so you can pull up previous records if you need them as reference.

Time Miscalculations

Always double-check the timesheet of employees. There are possibilities that the timesheet shows the wrong number of hours rendered for work. So, check on your other attendance records to make sure the employee was really present during work. Use [HR calculators](#) to ensure accurate results.

Lack of Security

The payroll contains personal employee details, so make sure that your records and your work are kept in a secure place. Also, based on a standard [HR policy](#), these records should only be made available to those who have clearance or are involved in payroll processing.

Using Inaccurate Employee Information

If you got your employee information wrong, you might end up giving the wrong payment to them. To avoid that, try to follow up on the employee information, keep them updated, and double-check before you deliver the pay.

Data Loss

There's always a possibility that your data could get compromised. So to avoid that, make sure to keep a backup of the data so you can resume doing payroll despite data loss.

Misclassifying Employees

This includes listing them under the wrong paygrade or mistaking them for another employee. Avoid making this mistake by double-checking on employees.

Doing payroll is a challenging job. But someone has to make sure that everyone gets their dues at work. At the end of the day, it can be rewarding to see all the employees get their hard-earned money during payday. Before you go, you might also want to check out our [salary negotiation tips for employers](#).