PROCESS TIME IN LIEU TO ACCRUE RDOS

SUMMARY

This document explains how to set up Constructor Payroll in a scenario where employees work a small portion of extra (unpaid) hours each week in order to qualify for that rostered time off.

It will cover setting up all the required parameters (employee pay, costing and entitlement rates and payroll components) and also how to process the Payroll transactions in order to accrue the required "Rostered Days Off" entitlement, use up that entitlement when the leave is taken and cost the required amounts to projects each pay period.

In a nutshell, the system will process paid and unpaid leave each pay period, but cost all hours worked to the required projects. It will also accrue entitlements as required to ensure each employee is credited with sufficient hours each pay period, and reduce those hours accrued when the RDOs are taken.

You can define the rate at which all hours (paid and unpaid) are costed to projects as well as the rate employees are actually paid, whether or not if differs from the on-cost rate.

SETTING UP

There are a few key factors in setting this up in the Constructor Payroll Module.

- The number of hours of entitlements an Employee may consume in a year is crucial to the calculation that is made each time a payroll invoice is saved.

  If an employee is entitled to take 1 RDO, every 4 weeks, that constitutes 104.2857 hours per year.

  Be very careful not to simply think "months" in this calculation.

  If an employee is entitled to 1 RDO per month, then that constitutes 96 hours per year (that's 8 hours x 12 months = 96 hours per year)

  However, there are 365 / 28 (13.0357) lots of 4 week periods in a year. At 8 hours leave in each one, an employee is entitled to 13.0357 x 8 = 104.2857 hours per year.
- All payroll components used in the solution must be set up to behave correctly with regards to accruing and consuming these entitlements
- The rates at which employees are to be paid the entitlements and at which hours are to be costed to projects must be defined up front.

EXAMPLE

Assume the following scenario:

- Employees are paid a flat rate for work performed on projects during the time period ($25 per hour).
- In this example employees work **38 paid hours** and an extra **2 unpaid hours** per week for which they are entitled to take one 8 hour day of leave, every four weeks.
- All 40 hours each week are required to be costed against the projects on which they work.
- To lessen complexity, this example is purposely ignoring Superannuation.

1 Ensure you have **set up a Rostered Days Off Entitlement**.

1.1 Go to Accounting / Payroll / Administration / Entitlements

1.2 If there isn't already an entry for "Rostered Days Off" Click "New"

1.3 Enter the description for the leave ("Rostered Days Off")

1.4 Save the Entitlement

1.5 This entitlement will now be available on the Employee screen for you to define, how many hours shall be accrued each year – see step 2.

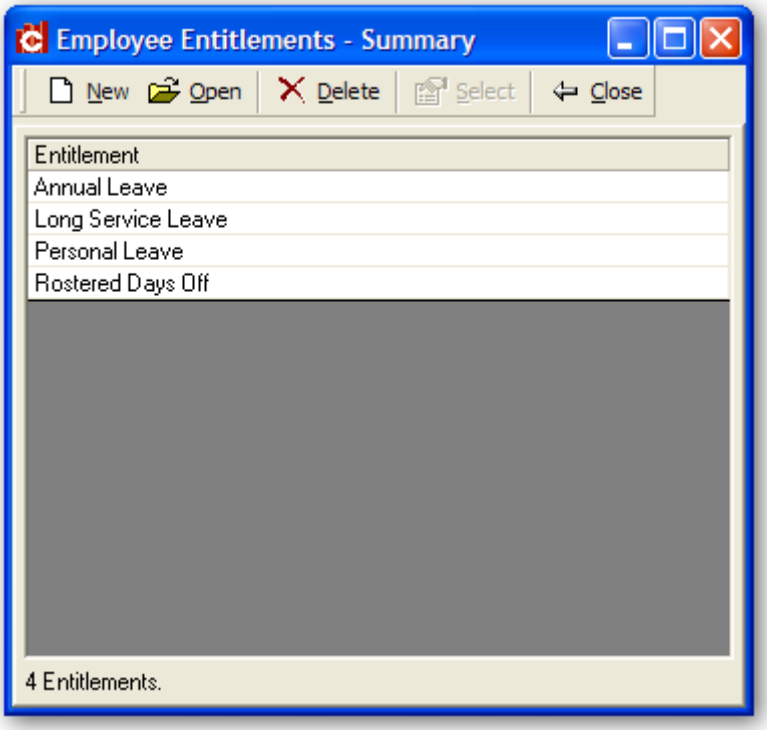


Figure 1: Enter Entitlements here using the "new" button and simply entering a description for each entitlement

2 Set up the **employee's annual entitlement accrual** figures to ensure he/she accrues the correct amount of Rostered Days Off each pay period and therefore each year.

2.1 Go to Accounting / Payroll / Employees.

2.2 Open the details of the employee in question and go to the Payroll Tab.

2.3 Enter the number of hours the employee is to accrue, each year, against the appropriate entitlements, listed in the entitlements grid. (Default values can be set up against Employee Awards for this if necessary – see Payroll User Guide for details.)

2.3.1 For one, 8 hour day every four weeks, enter 104.2857.
*(365 / 28 day) = 13.035714 * 8 hours = 104.28571 hours per year.*

2.3.2 For one, 8 hour day every month, enter 96.
*12 months * 8 hours = 96 hours per year.*

2.3.3 For one, 7.5 hour day every month, enter 90.
*12 months * 7.5 hours = 90 hours per year.*

2.3.4 For one, 7.5 hour day every fortnight, enter 195.53571
*365 / 14) = 26.071428 fortnights per year, * 7.5 hours leave every in each one, equals 195.53571*

2.4 You must also ensure the number of hours per week and number of hours per day values are correct, and consistent with the values you used above.

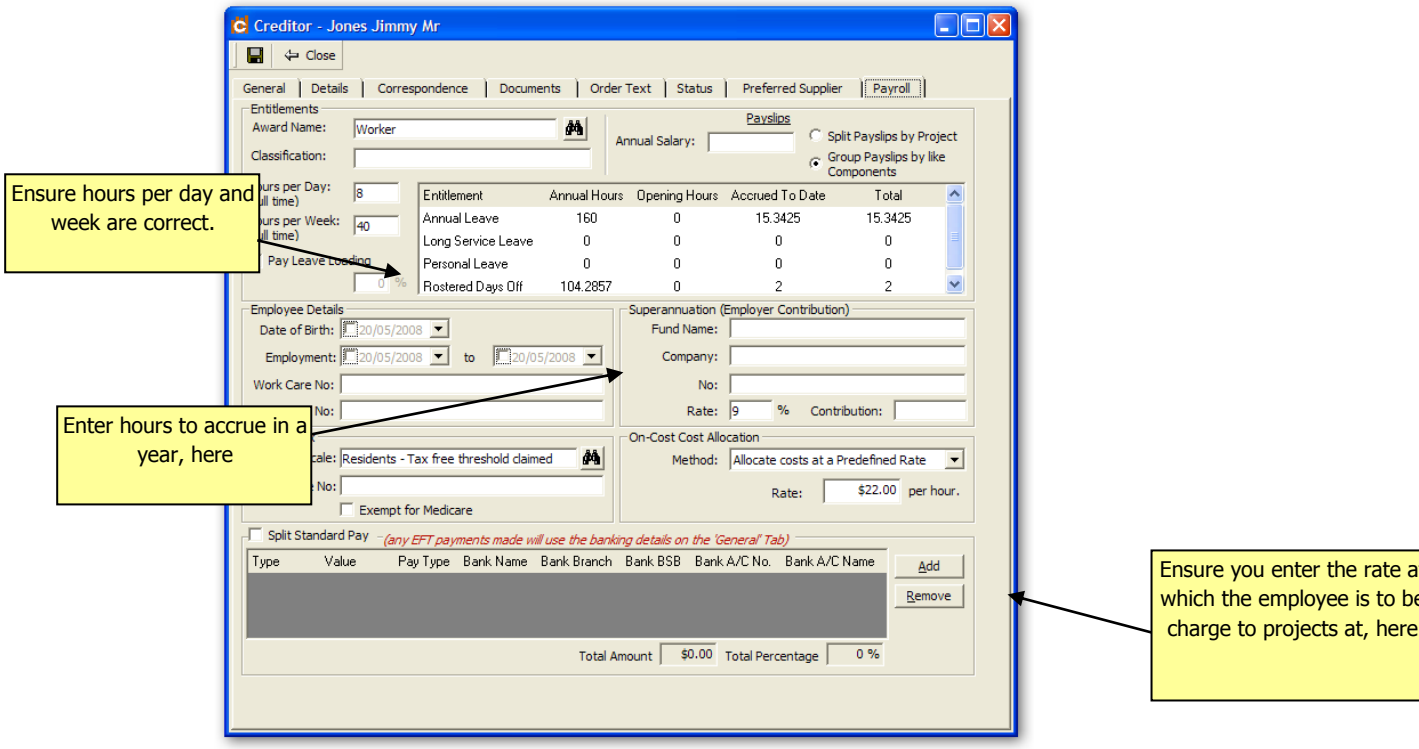


Figure 2: On the Employee tab entere the hours per year that are to be accrued for each entitlement and the rate at which hours are to be costed to projects

3 Set up the rate at which **employees** are to be **costed** to projects.

3.1 In the same Payroll screen for the employee as above, choose "Allocate Costs and Predefined Rate"

3.2 In the "Rate" field that is enabled when you choose this option enter the rate at which the employee is to be charged to the job.

This is vital to the cost allocation component of this solution because, for the extra unpaid hours worked, a $0 value will be entered on the Payroll Invoice detail line, but you want the system to allocate costs for each of those unpaid hours at this higher rate.

3.3 Save and Close the employee screen.

4 Set up a **Payroll Component** to cater for recording the time in lieu;

4.1 Set up a new Payroll Component (Menu: Accounting / Payroll / Components – then choose the new button.)

4.2 The component should be named something relevant – e.g. "Time in Lieu of RDO."

4.3 Link the new component to the relevant Cost Centre on the "Cost Centres" tab.

4.4 On the payroll tab enter the following settings:

4.4.1 In the Payroll Classification for Group Certificates, select "**Gross Wages**"

4.4.2 In the Job Costing section, select "**Direct Cost**"

4.4.3 In the Entitlements section, check "Hours entered against this Component constitute normal work hours (Ordinary Time Earnings) **and** "Hours entered against this Component CONTRIBUTE to Entitlements".

This is vital to ensure the correct number of hours is used each pay period, when calculating entitlement accruals.

See next page for an example of the payroll tab for this component.

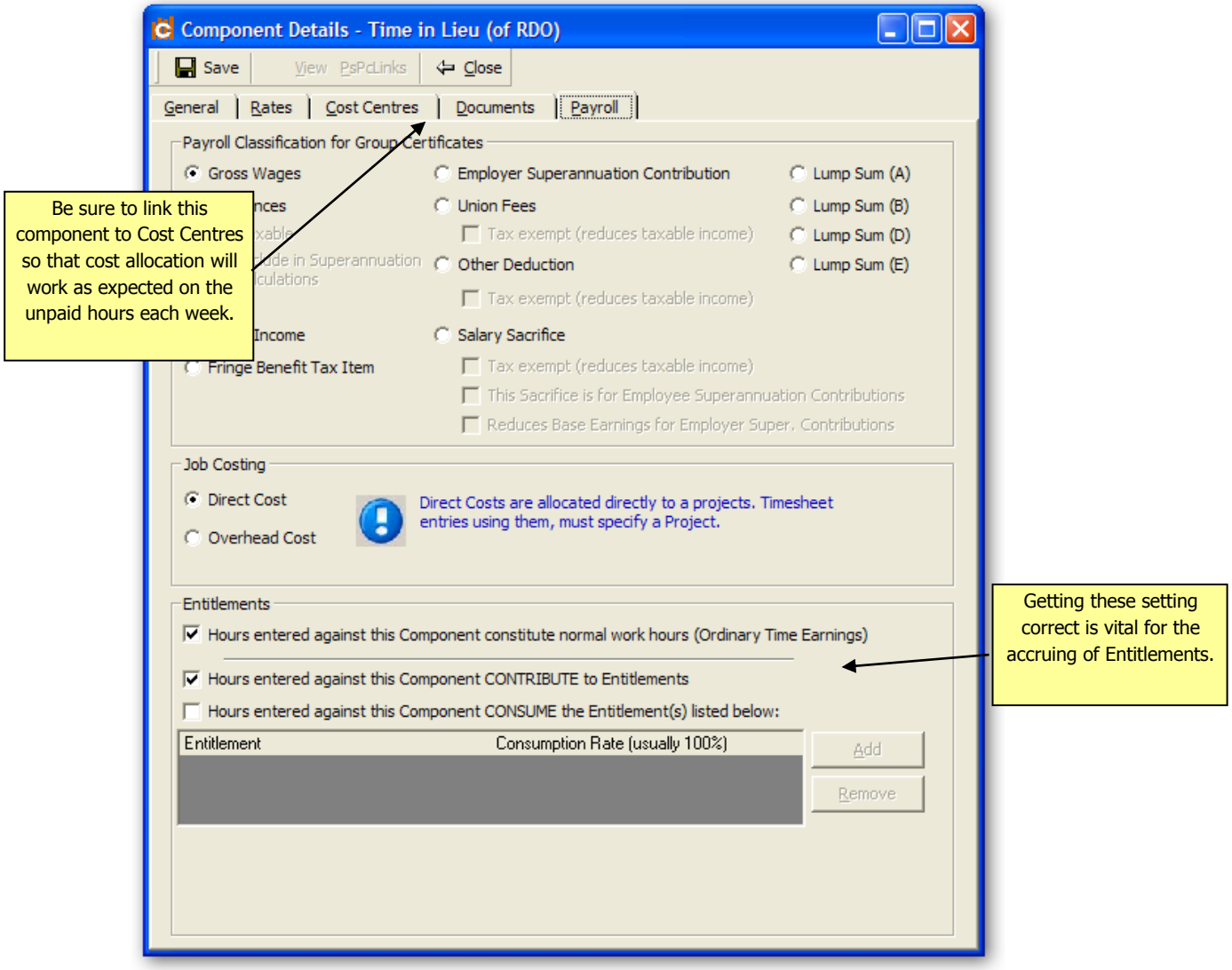


Figure 3: Set up the payroll details of the Time in Lieu component as above.

4.5 On the **rates** tab be sure to select each employee to which this scenario is relevant and enter a price of $0.

(Remember this component represents unpaid hours worked, however there must be a rate record against an employee for that component to be used on their pay slip.)

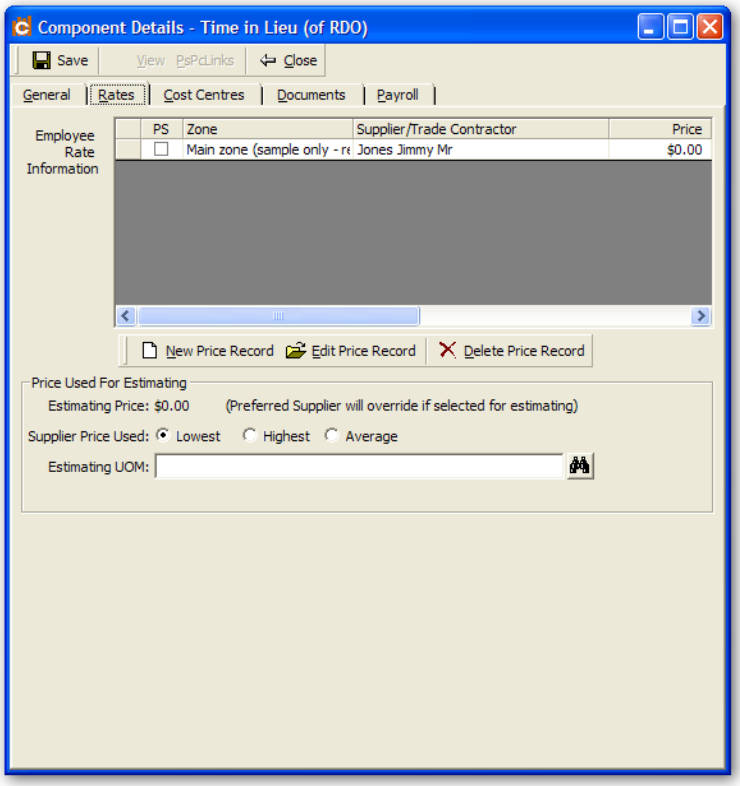


Figure 4: Remember, for unpaid leave, you still need a rate of $0 in order to use the component for an employee

5 You will also need to set up a **Payroll Component** to cater for recording when the **RDO** is taken.

5.1 Set up a new Payroll Component (Menu: Accounting / Payroll / Components – then choose the new button.)

5.2 The component should be named something relevant – e.g. "Rostered Day Off"

5.3 There is no need to link this component to a cost centre

5.4 On the payroll tab enter the following settings:

5.4.1 In the Payroll Classification for Group Certificates, select "**Gross Wages**"

5.4.2 In the Job Costing section, select "**Overhead Cost**"

5.4.3 In the Entitlements section, check "Hours entered against this Component constitute normal work hours (Ordinary Time Earnings) **and** "Hours entered against this Component CONTRIBUTE to Entitlements" **and** "Hours entered against this Component CONSUME Entitlements".

This is vital to ensure the correct number of hours is used each pay period, when calculating entitlement accruals.

5.4.4 In the list that is enabled when you check the "Hours entered against this Component CONSUME Entitlements", add a reference to the "Rostered Days Off" entitlement created in step 1 and make sure the rate at which it will be consumed, is 100%

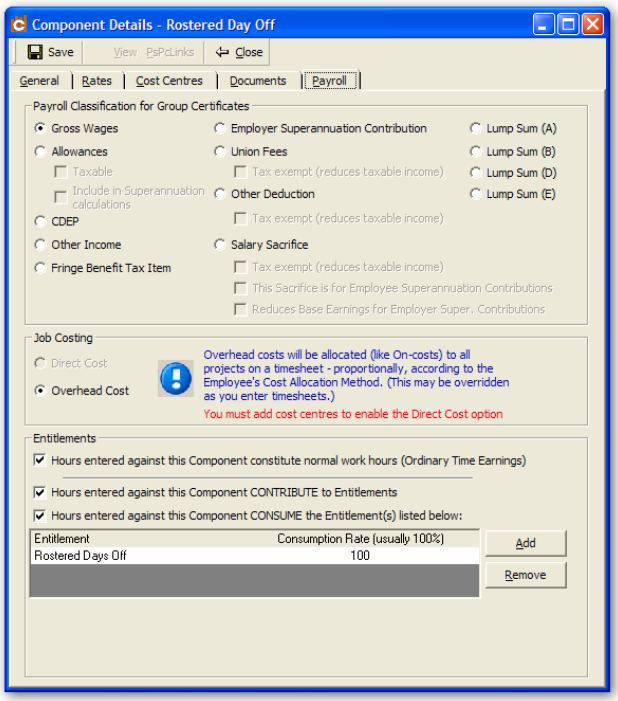


Figure 5: Set up the RDO component to both CONTRIBUTE to, and CONSUME entitlements

5.5 Remember to set up the rate at which the employee is to be paid, when they take the RDO – on the Rates tab for the component.

As they have worked the hours in lieu of the RDO, the RDO is still paid leave. It will not, however be costed to the job.

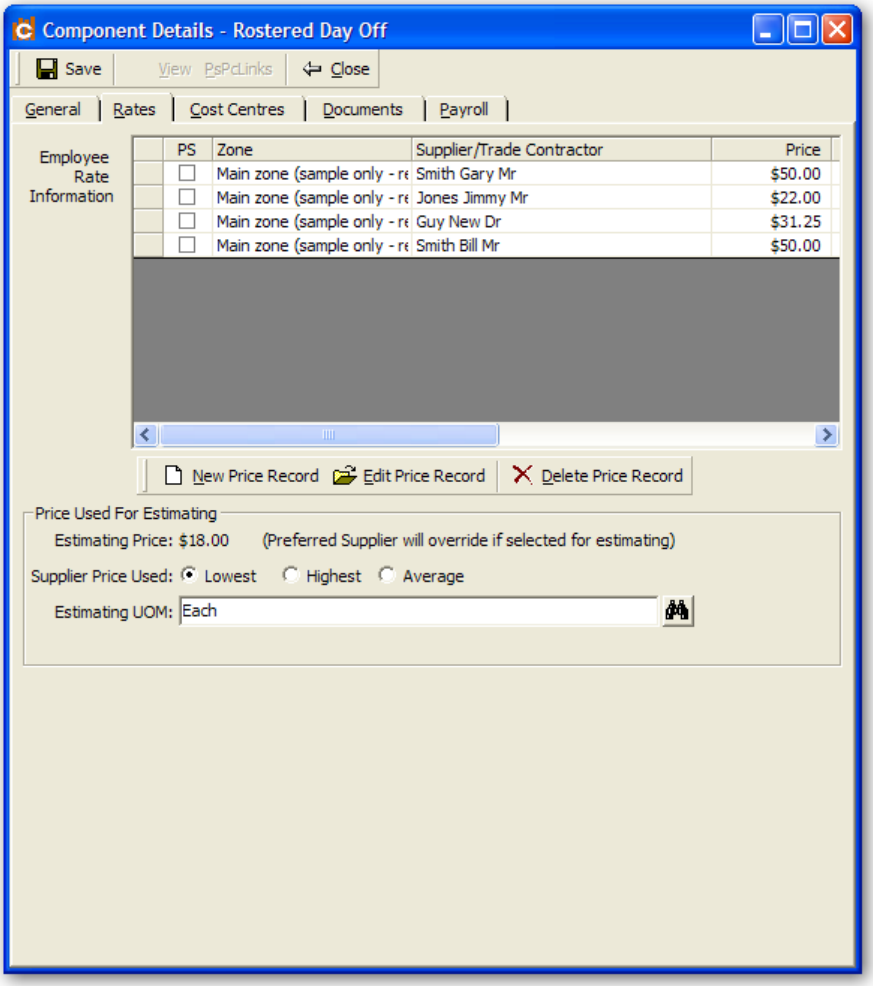


Figure 6: Remember hourly rates for the RDO component must also be set up

6 You are now ready to **process a payroll invoice.**

6.1 Start a new payroll invoice

6.2 Select the employee set up in step 2 and 3.

6.3 For a basic 40 hour week enter in the time sheet grid:

6.4 38 hours against a standard "Ordinary Wages" type component which will no doubt be a direct cost designed to allocate costs against a job.

6.5 2 hours against the Time in Lieu component set up in step 4.

6.6 Now, generate the payroll and cost allocation by clicking the "Invoice" button.

6.7 The system will now create "P" lines for the 38 hours, at the rate entered against that employee for that component, and for the 2 hours, at a rate of $0 (see 4.5).

6.8 The system will also create cost allocation lines for both the P lines at a rate representing the difference between the rate paid and the predefined cost allocation rate for the employee (see step 3.2)[1].
The important action here is that the 2 hours entered against the "Time in Lieu" component will result in 2 hours at the Predefined Rate, being costed against the job even though the rate being paid to the employee is $0.

6.9 The end result should be a payroll invoice for a total of 38 paid and 2 unpaid hours.

6.10 Check the employee's accrual figures on the Employee Summary screen – payroll tab. The Rostered Day Off entitlement (set up in step 1) should now have some hours accrued against it.

6.11 You simply repeat these invoices until an employee has accrued enough hours to actually take one of those Rostered Days Off.

[1] At time of writing, the system will create a cost allocation line of $0 where the rate paid to the employee and the predefined rate are equal. This line is unnecessary and will most likely be removed in a future build of the product.

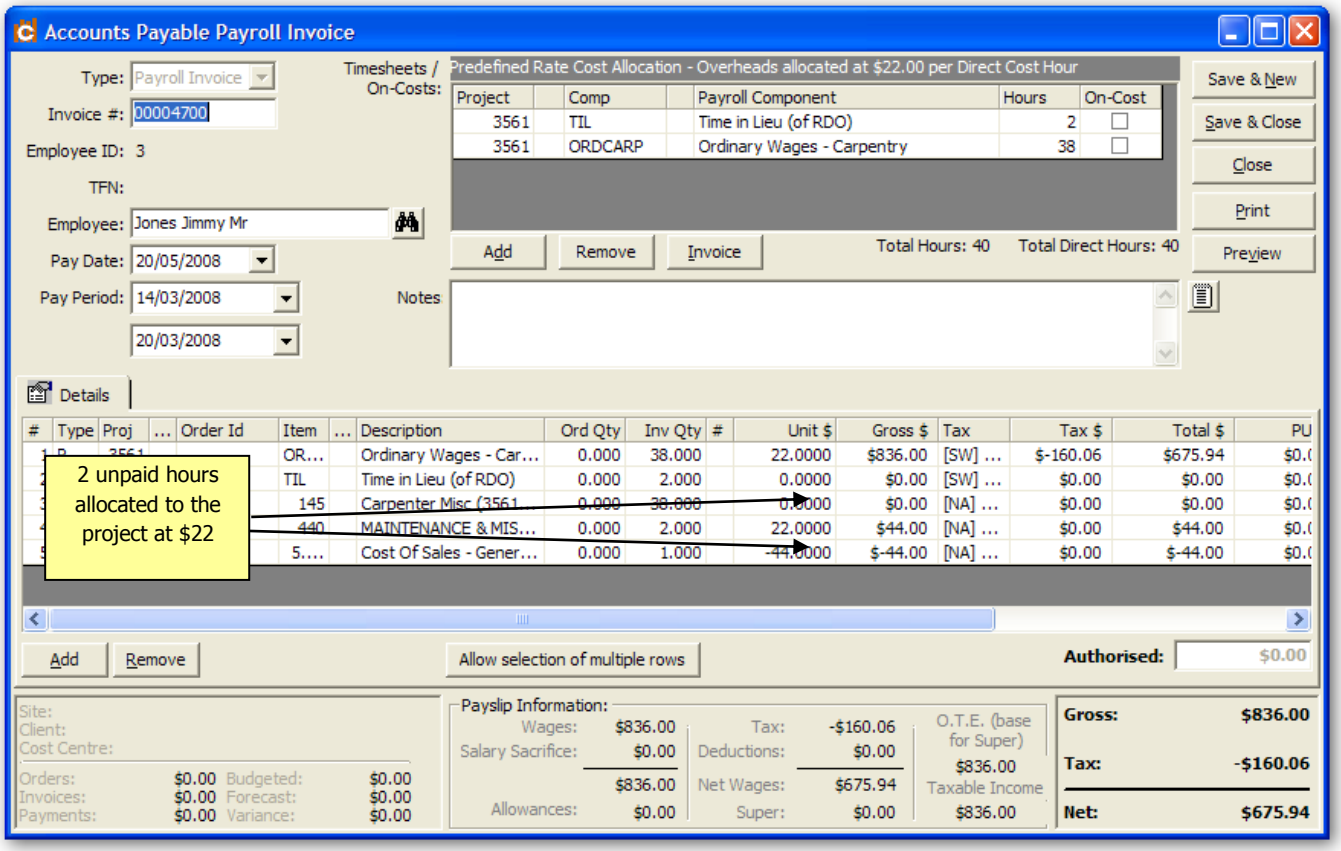


Figure 7: Payroll Invoice showing 38 hours paid and 2 hours unpaid. Note the allocation of the 2 hours at $22 even though the employee is not paid for those hours.

7 To process a payroll invoice when Rostered Days Off are consumed, follow the steps in 6 (above) however you would only enter 30 hours (instead of 38 hours) for the paid hours worked, and instead, you would enter another line on the Timesheet grid, using the "Rostered Days Off" component set up in step 5.

This component will have the affect of reducing the employee's RDO entitlement – all things being equal, back to 0 hours.

You should note here that prior to this final payroll invoice being entered, the employee's accrued entitlement may still be slightly less that the 8 hours to be consumed here. This occurs because the remaining 30 hours and the 8 hours RDO themselves, will contribute a small portion to the overall accruals as well.

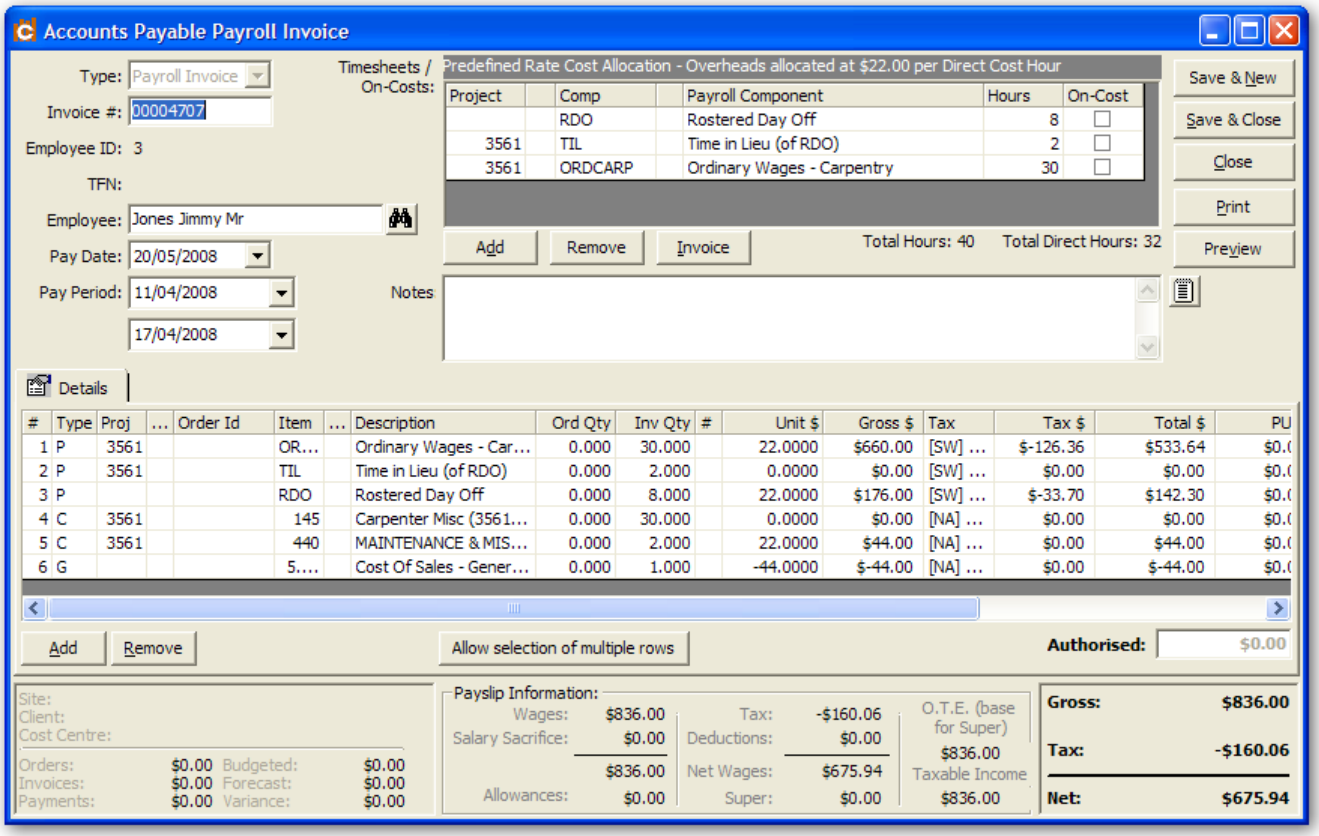
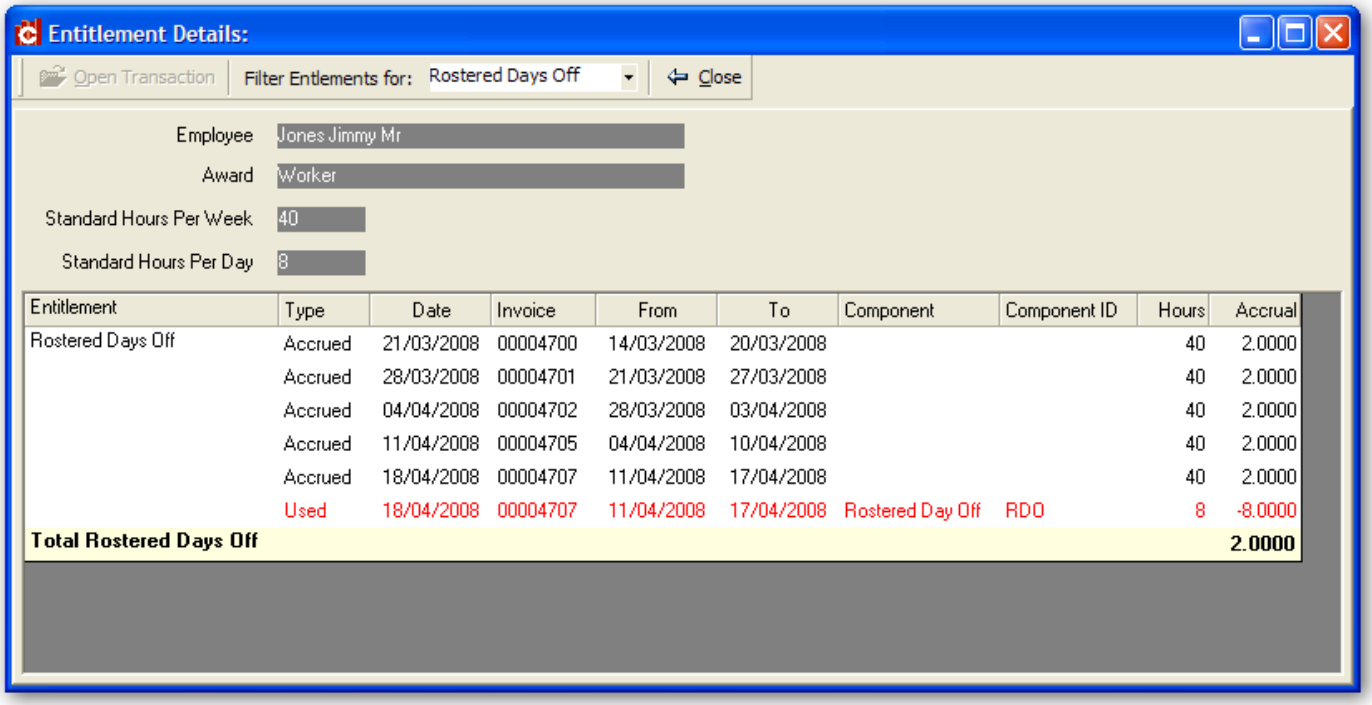


Figure 8: Payroll Invoice showing 30 hours paid, 2 hours unpaid and 8 hours RDO used

NB. In more complex cases, where employees work on more than one project in a week, the process is exactly the same as explained here, however the end result will show more P lines, to record each project where paid and unpaid hours were worked, and therefore more cost allocation lines, as there are more projects to allocate costs across.

ENTITLEMENT ACCRUING.

Under the parameters set up in this example, RDO entitlements will accrue at 2 hours per week. On the fifth week, when the RDO is taken, 8 hours are used up, but of course, another two have accrued again, for next time.



Entitlement	Type	Date	Invoice	From	To	Component	Component ID	Hours	Accrual
Rostered Days Off	Accrued	21/03/2008	00004700	14/03/2008	20/03/2008			40	2.0000
	Accrued	28/03/2008	00004701	21/03/2008	27/03/2008			40	2.0000
	Accrued	04/04/2008	00004702	28/03/2008	03/04/2008			40	2.0000
	Accrued	11/04/2008	00004705	04/04/2008	10/04/2008			40	2.0000
	Accrued	18/04/2008	00004707	11/04/2008	17/04/2008			40	2.0000
	Used	18/04/2008	00004707	11/04/2008	17/04/2008	Rostered Day Off	RDO	8	-8.0000
Total Rostered Days Off									**2.0000**

Figure 9: See here, how entitlements accrue each pay period, then are consumed in the fifth week, while at the same time start accruing again in that fifth week.

Naturally, there is no need for employees to use up entitlements once they reach any specific level. The system will simply keep accruing entitlements whether or not they are used.

The system will also allow you to consume entitlements you have not yet accured. Control of this is deemed to be an administration task. For flexibility, the system will allow negative accruals for entitlements.

SEE ALSO:

Payroll User Guide: for information on how to setup payroll components, set employee entitlement information, process payroll invoices and how all the calculations mentioned above are made.