Cohort 46

Understanding Business Finance & Payroll Management for HR Professionals

By

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Objective

To equip non accounting professionals with…

- The basic knowledge to understand the financial and accounting information of a company.
- The ability to interprets some financial ratios
- understand the general rules for taxation of income from employment (Income tax calculations)

Business Finance

- Business finance refers to the management of money and other financial resources to meet a company's objectives.
- Key areas include financial planning, working capital management, investment decisions, financial control, profit management etc.
- Get insight through Financial Reports

Key Financial Terms

Assets are things that belongs to the company or what the company owns

Liabilities are what you owe or debts that the company will be paying the near future

Equity is the net worth of the company. It represent what is left if all assets are sold and liabilities paid. In other instance, that is your **Capital**.

The **assets and liabilities** are mostly listed in order of liquidity and separated into **current and non-current**.

Key Financial Terms

Revenue (or Income) is the total money a business earns from selling goods or services like sale of phones

Expenses are the costs incurred by the business to generate that revenue like salaries, rent.

Profit or Loss is the difference between revenue and expenses.

If revenue is > expense, there is a **profit**.

If expense is > revenue, there is a **loss**

Financial Statements

What are financial statements

Financial statements are standard reports that shows the business activities and the financial performance of a company over a period of time.

These reports include

+ Balance sheet, Income statement, Cash flow statement, and other management reports.

+ These reports or records are audited to ensure accuracy for tax, financing, investing purposes, etc.

Balance Sheet

Statement of financial position

The Statement of financial position reports a company’s assets, liabilities and shareholders equity at a specific point in time.

It shows the definition of the accounting equation:

- **Assets = Liabilities + Equity**

Basic Accounting Equation

This is a concept in financial accounting that states that:

Assets = Capital (or Equity) + Liabilities

100,000 Cash	=	100,000 Capital

250,000 Bank	=	100,000 Capital	+	150,000 Loan

Example – Balance Sheet

Assets	Yr. 1	Yr. 2
Current assets	GHS	GHS
Cash	20,000	20,865
Accounts receivable	3,500	3,651
Inventory	55,000	57,379
Prepaid expenses	10,000	10,433
Total current assets	**88,500**	**92,328**
Non-current assets		
Property plant & equipment	121,010	126,244
Intangible assets	12,000	12,519
Total non-current assets	**133,010**	**138,763**
Total assets	**221,510**	**231,092**
Liabilities		
Current liabilities		
Accounts payable	2,590	2,702
Accrued expenses	1,560	1,627
Total current liabilities	**4,150**	**4,330**
Non-current liabilities		
Deferred Tax	15,000	15,649
Bank loan	90,000	93,893
Total Non-current liabilities	**105,000**	**109,542**
Total Liabilities	**109,150**	**113,871**
Equity		
Ordinary Shares	100,000	100,000
Retained Earnings	12,360	17,220
Total Equity	**112,360**	**117,220**
Total Liabilities and Equity	**221,510**	**231,092**

Asset = liabilities + Equity

Current assets – expected to be converted into cash in less than 1 year

Non-current asset or long-term assets – expected to held over 1 year

Example – Balance Sheet

Assets	Yr. 1	Yr. 2
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Current liabilities – (what you owe) to be paid in less than 1 year

Non-current liabilities or Long-term liabilities – Debts that are repayable over 1 – 5 years +

Equity or Shareholders fund – reflect the amount of ownership of the business

Assets	Yr. 1	Yr. 2
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Ratios

- **Working Capital** is the capital a company uses to finance its day-to-day activities. It is calculated as current assets – current liabilities
- **Yr1 WC : 88,500 – 4,150 = 84,350**
- The company has enough cash to paid bills, suppliers, etc

- **Debt-to-Equity** ratio is a financial ratio indicating the relative proportion of shareholders' equity and debt used to finance a company's assets.
- **Yr1 D/E: 109,150/112,360 = 0.97: 1**
- A high debt-to-equity ratio indicates that a company is borrowing more capital from the market to fund its operations.

Income Statement

- Also know as the Profit and loss account.
- The income statement is financial report detailing a company's income, expenses and profit or loss over a reporting period.
- This report can be monthly, quarterly or yearly.
- It has 3 parts: Revenue, expense and profit or loss

Example – Income Statement

	Yr. 1	Yr. 2
	GHS	GHS
Revenue	**286,040**	**577,525**
COGS	149,780	397,000
Gross profit	**136,260**	**180,525**
Other income	35,980	23,000
Operating Income	**172,240**	**203,525**
Admin Expense	54,790	60,000
Personnel Cost	70,000	90,000
Depreciation	30,000	30,000
Operating Expense	**154,790**	**180,000**
EBIT	**17,450**	**23,525**
Interest Payment	2,000	2,000
EBT	**15,450**	**21,525**
Tax (20%)	3,090	4,305
Net Profit	**12,360**	**17,220**

Revenue is the amount the business is making from the sale of goods or services

Cost of good sold (COGS) is your direct cost related to your revenue

Gross profit measure the company's profit on revenue

Expenses are the cost incurred in running the business

Net profit (loss) after making all payments

Vertical Analysis – Common Size

	Yr 1	Ratios	Yr 2	Ratios
Revenue	286,040	100%	577,525	100%
COGS	149,780	52%	397,000	69%
Gross profit	**136,260**	**48%**	**180,525**	**31%**
Other income	35,980	13%	23,000	4%
Operating Income	**172,240**	**60%**	**203,525**	**35%**
Admin Expense	54,790	19%	60,000	10%
Personnel Cost	70,000	24%	90,000	16%
Depreciation	30,000	10%	30,000	5%
Operating Expense	**154,790**	**54%**	**180,000**	**31%**
EBIT	17,450	6%	23,525	4%
Interest Payment	2,000	1%	2,000	0%
EBT	**15,450**	**5%**	**21,525**	**4%**
Tax (20%)	3,090	1%	4,305	1%
Net Profit	**12,360**	**4%**	**17,220**	**3%**

Common size analysis evaluates financial statements by expressing each line item as a percentage of a base amount for that period.

Yr1 Spending:
- **52% on COGS**
- **19% on Admin**
- **24% on Personnel Cost**
- **4% Net profit**

Horizontal Analysis

	Yr 1	Yr 2	Change	% Change
Revenue	286,040	577,525	291,485	102%
COGS	149,780	397,000	247,220	165%
Gross profit	**136,260**	**180,525**	**44,265**	**32%**
Other income	35,980	23,000	(12,980)	-36%
Operating Income	**172,240**	**203,525**	**31,285**	**18%**
Admin Expense	54,790	60,000	5,210	10%
Personnel Cost	70,000	90,000	20,000	29%
Depreciation	30,000	30,000	-	0%
Operating Expense	**154,790**	**180,000**	**25,210**	**16%**
EBIT	17,450	23,525	6,075	35%
Interest Payment	2,000	2,000	-	0%
EBT	**15,450**	**21,525**	**6,075**	**39%**
Tax (20%)	3,090	4,305	1,215	39%
Net Profit	**12,360**	**17,220**	**4,860**	**39%**

Horizontal Analysis measures a company's financial performance by comparing its reported financial data from one period to another period

Interpret the changes from Yr1 to Yr2?

Cash flow statement

- A cash flow statement tracks the inflow and outflow of cash, providing insights into a company's financial health and operational efficiency
- where cash flows INTO the business
- where cash flows OUT of the business
- What cash is left during the period

The statement is grouped into:

- Operating activities
- Investing activities
- Financing activities

Cash flow statement

Operating activities	GHS
Net income	5,920
Add depreciation	5,000
adjust for changes in working capital	(1,509)
Cash flow from operating activities	**9,411**
Investing activities	
Purchase of fixed assets	(2,500)
Proceeds from disposal of fixed assets	-
Cash flow from investing activities	**(2,500)**
Financing activities	
Issue of shares	-
Borrowings	2,000
Repayment of debts	(500)
Cash flow from financing activities	**1,500**
Net movement in cash	**8,411**
Opening cash balance	359
Closing cash balance	**8,770**

Operating activities: your daily business operations, revenue collected, and expenses paid

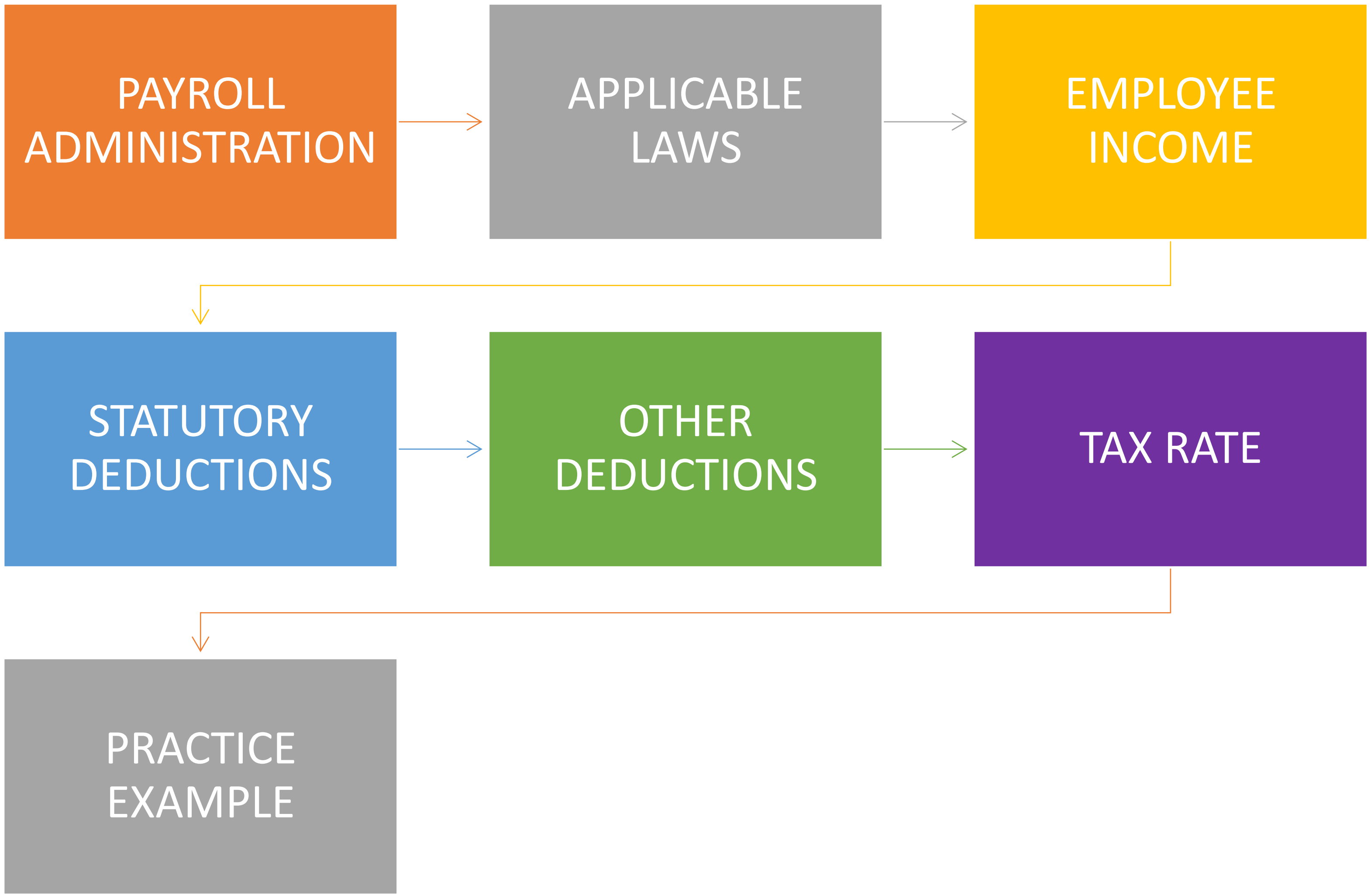
Investing activities: cash invested in non-current assets to support the business

Financing activities: transactions related to shares and debt. Company raises funds either by borrowing or issues shares

End of Session 1

PAYROLL ADMINISTRATION

Overview


PAYROLL ADMINISTRATION
APPLICABLE LAWS
EMPLOYEE INCOME
STATUTORY DEDUCTIONS
OTHER DEDUCTIONS
TAX RATE
PRACTICE EXAMPLE

Payroll Administration

This is a process that involves all the tasks undertaken to organize and pay salaries of employees for hours worked. The process include data gathering, payroll process and reporting.

Data Gathering

- Employee onboarding process

Payroll Process

- Payment of salaries

Reporting

- Statutory reporting: PAYE, Tier 1 (SSNIT), Tier 2, PF

Pay Slip

Details	Rate	GHS
Basic Salary		**xxxxx**
Clothing Allowance	10.0%	xxxxxx
Rent Allowance	20.0%	xxxxxx
Bonus		xxxxxx
Total Income		**xxxxx**
Less:		
Employee SSF	5.5%	xxxxx
Provident Fund	10.0%	xxxxx
Total Deductions		**xxxxx**
Assessable Income		**xxxxx**
Tax Relief		xx
Chargeable Income		**xxxxx**
PAYE		xxx
Net Pay		**xxxxx**

Applicable Laws

Income Tax Act 2015, Act 896 with amendments

Labour Act, 2003 (Act 651)

National Pension Act 2008, Act 766

Related Regulations

Income

- Salary
- Allowances
- Benefits in Kind
- Overtime
- Bonus

Income Tax Act, 2015 (Act 896)

Income from employment

4 (1) The income of an individual from an employment for a year of assessment is the gain and profits of that individual from the employment for the year or part of the year

(2) A person who is ascertaining the profit and gains of an individual from an employment for a year of assessment or for a part of that year shall

a) Include in the calculation, an amount specified in respect of
   i. Salary, wages, leave pay, fees, commissions, and gratuities
   ii. Overtime pay and bonuses as provided by Regulations
   iii. Personal Allowances, including cost of living allowances (COLA), subsistence, rent, entertainment or travel allowances

Income Tax Act, 2015 (Act 896)

Cont....

iv. A discharge or reimbursement of an expenses incurred by an individual or an associate of the individual

v. A payment made for the individual's agreement to conditions of the employment

vi. Subject to section 94, a retirement contribution made to a retirement fund on behalf of an employee and a retirement payment received in respect of an employment

vii. Other payments, including gifts, received in respect of the employment

viii. Other amounts required to be included under Part III, and

ix. Any other allowance or benefit paid in cash or given in kind if they are derived by the individual during the year of assessment

Exclusions

4 (2)(b)

exclude from the calculation, an amount specified in respect of

i. an exemption under Section 7
ii. A final withholding tax
iii. A discharge or reimbursement of an expense incurred by an individual on behalf of the employer of that individual that serves the proper business purposes of the employer
iv. A discharge or reimbursement of the dental, medical or health insurance expenses of an individual where the benefit is available to each full-time employee on equal terms

Sec 7: Exempt Income

The following are exempt from Tax:

- The President of Ghana
- Income of Government of Ghana or local authority
- Pensions
- Compensation or gratuity in relation to (i) a personal injury suffered by that person, or (ii) the death of another person
- Income from cocoa of a cocoa farmer
- By Diplomatic Immunities Act
- Convention on the Privileges & Immunities of the United Nations

Benefit in kind –

4th Schedule of Income Tax (Amendment) Act, 2023. Act 1094

Facility Provided	From May 2023
Provision of Accommodation	**Value (% of TCE)**
Accommodation with furnishing	10%
Accommodation only	7.50%
Furnishing only	2.50%
Shared accommodation	2.50%
Provision of Motor Vehicle	**Value (% of TCE)**
Vehicle with fuel, driver	12.5% up to GH¢1500 per month
Vehicle with fuel	10% up to GH¢1250 per month
Vehicle only	5% up to GH¢625 per month
Fuel only	5% up to GH¢625 per month

A benefit in kind (BIK) is any non-cash perk or service of monetary value that an employer gives to an employee. Because these extras have real financial worth, tax offices usually treat them as a form of taxable income

Bonus – L.I. 2244 (Income Tax Regulations, 2016)

Sec 5 (2) ….the employer shall,

(a) withhold tax at 5% up to 15% of the annual basic salary of the employee; or

(b) If the total bonus exceeds 15% of the annual basic salary,

   (i) Add the excess payments to the employment income for the year, and

   (ii) Withhold tax from the total amount obtained in accordance with the First Schedule of the Act.

Bonus

Name	Basic	Annual	Bonus Threshold (15%)	Bonus Paid	Excess	Tax 5%	Tax on Excess	Net
Kofi	8,000.00	96,000.00	14,400.00	14,400.00	-	720.00	-	13,680.00
Jojo	6,000.00	72,000.00	10,800.00	9,000.00	-	450.00	-	8,550.00
Ama	10,000.00	120,000.00	18,000.00	23,000.00	5,000.00	900.00	1,200.*	20,900.00

Overtime – L.I. 2244 (Income Tax Regulations, 2016)

- For Junior staff
- Qualifying income GHS18,000 pa (GHS1,500 pm)

Sec 5 (1) … the employer shall

(a) withhold tax of 5%, if the amount paid does not exceed 50% of the basic salary of that employee for the month, or

(b) withhold tax of 10%, from the excess if the amount paid exceeds 50% of the basic salary of the employee for that month.

Note: unlike bonus, the excess amount is not added to other income and tax at standard rate.

Overtime	Income Tax Regulation 2016, L.I. 2244 --- Sec 5 (1) ... the employer shall (a) withhold tax of 5%, if the amount paid does not exceed 50% of the basic salary of that employee for the month, or (b) withhold tax of 10%, from the excess if the amount paid exceeds 50% of the basic salary of the employee for that month.

					Criteria 1		**Criteria 2**
					OT <=50% of BS		**Excess OT**
Qualified Cash	**Basic Salary**	**50%**	**Overtime Income**	**OT Cash**	**5%**	**Excess**	**10%**
1,500.00	1,500.00	750.00	740.00	740.00	37.00	-	-
1,500.00	1,500.00	750.00	****1,500.00**	750.00	37.50	750.00	75.00

** **OT Allowance**	**1,500.00**
Tax	112.50
Net Income	1,387.50

Deductions

- Tier 1 (SSNIT)
- Tier 2 (Pension Fund)
- Tier 3 (Provident Fund [PF])
- Tax Reliefs
- Other Deductions
- Income Tax (PAYE)

National Pension Act, 2008 (Act 766)

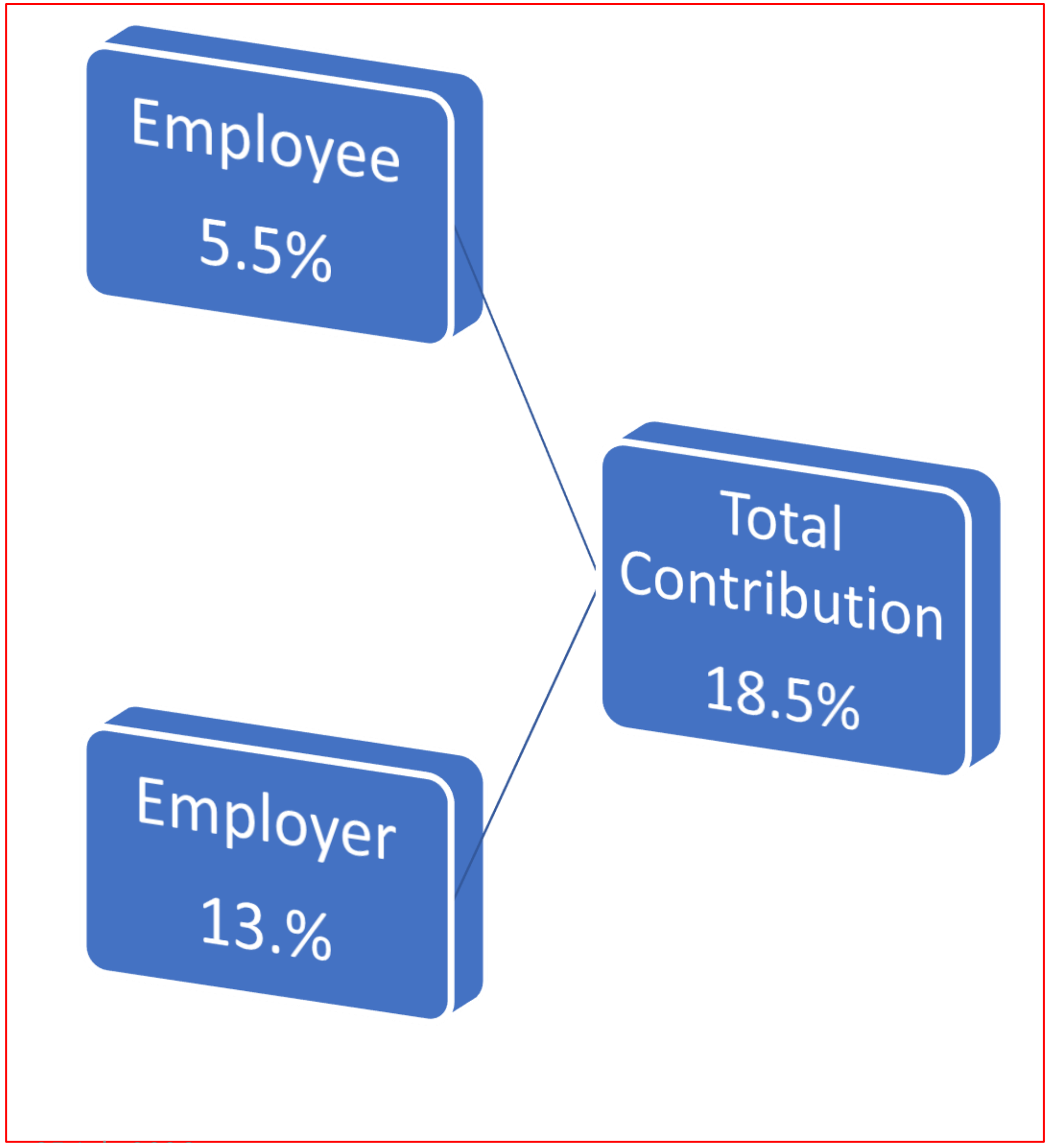
1. There is established by this Act, a contributory three-tier pension scheme consisting of

(a) a mandatory basic national social security scheme (Tier 1);

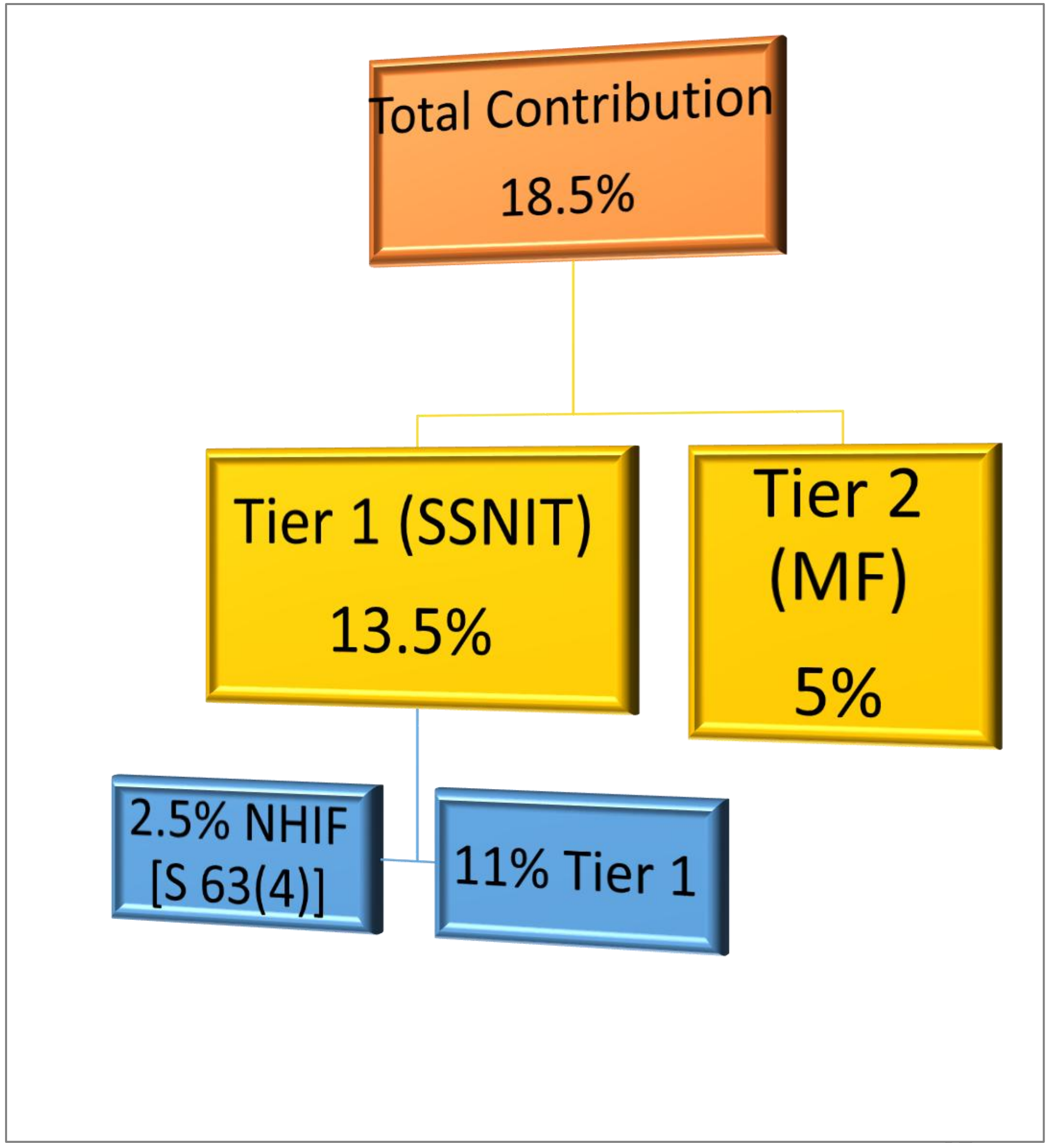
(b) a mandatory fully funded and privately managed occupational pension scheme (Tier 2), and

(c) a voluntary fully funded and privately managed provident fund and personal pension scheme (Tier 3).

SSNIT Contribution



Contribution Payment



Maximum & Minimum Insurable Earnings

Reviewed by SSNIT in consultation with NPRA under Sec 63 (3), National Pensions Act 2008 (Act 766)

Year	**2025**	**2026**
SSNIT Contribution Rate	13.50%	13.50%
Maximum Insurable Earning GHS	**61,000.00**	**69,000.00**
Maximum Contribution	8,235.00	9,315.00
Minimum Earning GHS	**535.19**	**587.80**
Minimum Contribution	72.25	79.35

Provident Fund (Pension Act 2008, Act 766)

Tax Reliefs – S 112

(1) A contributor shall treat his contribution as part of the deductible income for the purpose of income tax.

(2) Contributions not exceeding 16.5% of a contributor’s monthly income, made by either a contributor or the contributor’s employer or both

Personal Reliefs (5th schedule, Sec 51, Act 896)

Relief	Previous (GHS)	Amended (GHS)	Monthly
Dependent Spouse or at least two (2) dependent children (Marriage / Responsibility Relief)	200	1,200	100
Old Age (60 years and above)	200	1,500	150
Children's Education (per child) – up to maximum of three (3)	200	600	50
Disability Relief	25% of the assessable income	25% of the assessable income	
Aged Dependents (per dependent) – up to maximum of two (2) aged dependent relatives	100	1,000	83.33
Training and Development Relief	Maximum of 400	2,000	

GHANA REVENUE AUTHORITY

TAX RELIEF APPLICATION FORM

(To be completed by Employer for an Employee with only employment income)

Year: ________

For first application insert a photo for identification of employee

Employee's Surname ________________________ (1)
Other Name(s) ________________________ (2)
Gender ☐ (M or F) ☐ Date of Birth __ __ / __ __ / __ __ __ __ (D D M M Y Y Y Y)

Mother's Maiden Name ________________________
Social Sec. No ____________ (5) Tax File No.: ____________ (4)
Name of Employer ________________________ (6)
Address of Employer ________________________
Telephone No ____________ Tax ID. No. ____________ (3)

Has there been any change in your personal particulars form that of the previous year? Yes ☐ No ☐
If yes, complete the form
If no, proceed to sign the declarations.

Personal Particulars

Marital Status: Married ☐ Single ☐
If married, Name of Dependant Spouse ________________________
Particulars of Spouse:

Date of Birth __ __ / __ __ / __ __ __ __ (D D M M Y Y Y Y) Tax ID. No.: ____________
Tax File No.: ____________ Soc. Sec. No.: ____________

No. of Children: ☐
Particulars of Children:

Name	Date of Birth	Educational Institution

NOTE: Only one parent can claim relief in respect of each child subject to maximum of three (3) children.

Are You disabled? Yes ☐ No ☐
If yes, attach certificate from Department of Social Welfare.

Declaration of Employer

I do hereby declare that the above information is to the best of my knowledge and belief true, correct and complete.

____________ Signature of employer ____________ Declaration ____________ Date

Declaration of Employee

Do you have any other sources of income than your employment?
Yes ☐ No ☐
I certify that the information given by the Employer is correct.
The above employment is my primary employment and no other Tax Relief Card us issued or will be issued for this year.

____________ Signature of Employer ____________ Date

For official use only

If age over 60 years, Old age Relief is granted Amount of
a) GH¢ ________

Marriage Relief granted, Amount of
b) GH¢ ________

Children's Education Relief granted for ☐ children Amount of
b) GH¢ ________

Qualified for Disabled Relief
(10) Yes ☐ No. ☐

Computation of the summarised Amount of Relief for the year
a) ________
+ b) ________
+ c) ________
(7) Total:
GH¢ ________

Divided by ____ months monthly deduction
(8) GH¢ ________
First deductible month:
(9) ________
All information have been transferred to the TRC

________ Signature, Date

I.T. Form 21A

Other Deductions

Labour Union Dues

Loan Repayment

Salary Advance

Pay As You Earn (PAYE)

This is the Graduated Tax Rate (or tax band or tax bracket or personal income tax (PIT) rate) use in calculating the tax payable on the chargeable income of a worker.

Tax Bracket (PAYE) – Monthly Rate

Band	Rate (%)	New Chargeable Income (May 2023 - Date)	Cum. Chargeable Income	Tax	Cum. Tax
First	0.0%	402	402	-	-
Next	5.0%	110	512	5.50	5.50
Next	10.0%	130	642	13.00	18.50
Next	17.5%	3,000	3,642	525.00	543.50
Next	25.0%	16,395	20,037	4,098.75	4,642.25
Next	30.0%	29,963	50,000	8,988.90	13,631.15
Exceeding	35.0%	50,000			

PAYROLL CALCULATION		GHS
Basic Salary		**2,500.00**
Allowance	25%	625.00
Others		1,500.00
Excess Bonus		-
Total Cash Emolument		**4,625.00**
Less:		
Employee SSF	5.50%	137.50
PF	10.00%	250.00
Total deductions		**387.50**
Assessable Income		**4,237.50**
Tax Relief		250.00
Chargeable Income		**3,987.50**
PAYE		595.37
Net Pay		**3,642.13**

Band	Chargeable Income (GH¢)	Rate (%)	Tax (GH¢)	Cumulative Chargeable Income (GH¢)	Cumulative Tax (GH¢)
First	490.00	0%	-	490.00	-
Next	110.00	5%	5.50	600.00	5.50
Next	130.00	10%	13.00	730.00	18.50
Next	3,166.67	17.50%	554.17	3,896.67	572.67
Next	16,000.00	25%	4,000.00	19,896.67	4,572.67
Next	30,520.00	30%	9,156.00	50,416.67	13,728.67
Exceeding	50,000.00	35%			

PAYROLL CALCULATION		GHS
Basic Salary		**70,000.00**
Allowance	30%	21,000.00
Others		5,500.00
Excess Bonus		-
Total Cash Emolument		**96,500.00**
Less:		
Employee SSF	5.50%	3,795.00
PF	10.00%	7,000.00
Total deductions		**10,795.00**
Assessable Income		**85,705.00**
Tax Relief		300.00
Chargeable Income		**85,405.00**
PAYE		25,974.58
Net Pay		**59,730.42**

Band	Chargeable Income (GH¢)	Rate (%)	Tax (GH¢)	Cumulative Chargeable Income (GH¢)	Cumulative Tax (GH¢)
First	490.00	0%	-	490.00	-
Next	110.00	5%	5.50	600.00	5.50
Next	130.00	10%	13.00	730.00	18.50
Next	3,166.67	17.50%	554.17	3,896.67	572.67
Next	16,000.00	25%	4,000.00	19,896.67	4,572.67
Next	30,520.00	30%	9,156.00	50,416.67	13,728.67
Exceeding	50,000.00	35%			

Thank you

Prince Kuwornu

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