



## *What are the two methods for calculating the GST in my BAS form?*

*When your business reaches a gross annual income of more than \$75,000, you will need to register to collect GST and complete a Business Activity Statement (BAS) on a monthly, quarterly or annual basis.*

A large part of completing your BAS form is collecting GST and claiming GST credits on your business expenses which will need to be paid at the end of your businesses allocated tax period.

The frequency in which you'll need to lodge your BAS form is based on the size of your business:

- Quarterly – if your GST turnover is less than \$20 million – and the ATO has not told you that you must report monthly.
- Monthly – if your GST turnover is \$20 million or more.
- Annually – if you are voluntarily registered for GST and your GST turnover is under \$75,000 (\$150,000 for not-for-profit bodies).

The claims you make on your GST sales and claims are determined with the accounting method you use to report. This can affect the amount of GST you'll have to pay.

### **Cash vs Accrual**

The two methods used for calculating GST is the cash and accrual method.

#### **Cash**

In the cash accounting method, you'll track the actual money that comes in and out of your business. In cash accounting, you don't record the cost of an invoice until you have paid it. If you send out an invoice, you don't record the sale unless you receive it. For example, if you send out an invoice on Monday and don't receive payment until Wednesday, the amount does not get recorded into your accounts until Wednesday.

#### **Accrual**

You'll use the accrual accounting method when you record expenses and sales when they take place instead of when cash changes hands. For example if you send out an invoice on Monday, you will record that sale in your books on Monday, even if you haven't received the money for that invoice yet. This method shows the amount owed to you, and the amount you owe others.

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## Which way is best?

To work out the best method for your business, it's best to think about the size of your business, the complexity of your business transactions and your accounting and bookkeeping resources.

The cash accounting method is simple. It allows you to keep track of the actual cash flowing through your business and will give you a good picture of your available cash. It's generally suited to smaller businesses that mostly handle cash. However, you won't be able to track money owed to you, or that you owe.

When you account for GST using a cash accounting method, you account for the actual GST on transactions made.

The accrual accounting method is more complicated and better suited to businesses that don't get paid straight away. It is a system that tracks your true financial position as you can see money owed to you and that you owe. It's helpful when dealing with contracts and large amounts of money.

When you account for GST using the accrual method you will use the first tax period in which an invoice is issued relating to the sale or the first tax period in which the payment is received or made, even if you have not received payment for or have paid your outstanding invoices.

**Pro Tax Tip:** If you choose to run your business using this method, you'll need an in-depth understanding of bookkeeping methods or a professional to help you out.

## Which method are you eligible to use?

You'll be eligible to account for your GST on a cash basis if you are:

- a small business with an annual turnover of less than \$2 million
- you are an enterprise with less than GST of \$2 million
- your business runs on a cash basis and collect GST on a cash basis
- you are an endorsed charity, a trustee of a charity, a gift-deductible entity or a government school

*Feeling overwhelmed? There's no need to be. ITP The Income Tax Professionals offer expert bookkeeping Professionals and help businesses around Australia with their BAS calculations and reporting. We can help you with any questions you may have and will advise your best course of action. Call a Professional today.*