



## ***Client Month End or Quarter End Accounting Procedures:***



### **XERO Clients**

We provide this Accounting Procedures Memorandum as an example of the process's clients should undertake to accurately close of your books at the end of each month and at the end of the financial year.

In Xero there's no need to do a roll forward journal to bring the profit and loss balance back to Zero at the end of the year. Xero's reports are created in real-time, and reports like the Profit and Loss report run from the start of the financial year using the year-end date you've specified in Xero. Once the new financial year starts, as long as you haven't entered any transactions into Xero for that year, the Profit and Loss report shows Zero.

You can make sure your accounts are up-to-date prior to the end of the year using the process outlined below. The following areas are required to be examined at the end of each accounting period: **i.e. Monthly or Quarterly as a minimum.** You are welcome to add and amend as you discover other areas that also require to be completed in your specific business each month.

1. Bank Reconciliation
2. Debtors Ledger
3. Creditors Ledger
4. Sales Invoicing
5. Superannuation Payable
6. Payroll Clearing Account
7. GST Collected & GST Paid
8. Statutory Accounts
9. Petty Cash
10. Suspense accounts
11. Customer Deposits (liability in Balance Sheet)
12. Inter Company Loan Account
13. Stock takes

## **In detail:**

### **1.) Bank Reconciliations:**

At the time a bank statement is received by the business the statement should be reconciled against the company's Xero file. This may happen more frequently if you are using bank feeds and have internet banking access.

You will need to make sure any unpresented cheques or payments in your bank account are correct. Once checked you need to run the **Bank Reconciliation Summary** report to check if your actual bank balance and the balance of the bank account in Xero match.

#### **To Run the Bank Reconciliation Summary Report:**

- 1) In the **Accounting menu**, select **Reports**.
- 2) Under **Accounting**, click **More reports** to expand the section if the report is hidden.
- 3) Click **Bank Reconciliation Summary**.
- 4) Choose a **Bank Account** and select a **Date**, then click **Update** to view your report.

You can also access the report from the **Manage Account** menu within a bank account or by clicking the **Reconciliation report** link next to the **Manage Account** button in the bank reconciliation screens. If you view this report directly from the bank account, the account name is already selected.

If your transactions and reconciliation are up to date on the report date, your balance in Xero and your statement balance for that day should be the same.

If your balances don't match, Check the **Statement Exceptions** tab of the Bank Reconciliation Summary report for:

- Missing bank statement line.
- Duplicate bank statement line (one that was imported twice into Xero).
- Bank statement line deleted in error.
- Account transaction that was marked as reconciled by mistake (which has created a manual bank statement line).
- Bank account transactions that were imported but not reconciled.
- A reconciled bank statement line or account transaction matched to a future dated item – this will appear in the report as unreconciled.

Now that you've found the error in Xero, fix it as follows:

- I. **Missing bank statement line** – import a bank statement file for the missing transaction. If you can't import it, you'll need to manually mark the transaction as reconciled.
- II. **Duplicate bank statement line** – if the statement line was duplicated in error, delete it.

- III. **Deleted bank statement line** – if the statement line was deleted by mistake, restore it.
- IV. **Manual bank statement line** – if you marked a transaction as reconciled, then imported its statement line, delete the manual bank statement.

If you'd like to refer back to these results at another time, you can **export this report** to either a PDF or spreadsheet format or **publish the report**.

This reconciliation process should take place for all company bank accounts, credit cards and mortgage loans (as all of these are effectively bank accounts of the business).

Once the bank reconciliation is completed and all transactions that have passed through the bank have been ticked, cleared and reconciled and your balance agrees with the balance on the Bank Statement then a review of what is left on the reconciliation that has not been marked should be undertaken.

The items that will appear may be unpresented cheques and or deposits not yet credited on your bank statements.

The unpresented cheques should be perused carefully to determine why a cheque is still outstanding and the presenting party has not banked the cheque. After a while if a cheque has not been presented and is ageing a scan of your XERO file should be undertaken to determine if the cheque is accurate and if the cheque transaction has not been entered twice into Xero, or cancelled by someone in the company.

Often the same cheque is entered twice and one gets presented and the other is left in the unpresented list as it really is nothing more than an error entry. Once you are satisfied that there has only been one cheque prepared and it continues to remain unpresented then you should contact the supplier to ask if they have received the cheque and why it remains unpresented.

An entry for a deposit that remains on your bank reconciliation may mean that the bank has not recorded the deposit correctly against your bank account. Alternatively, the bank deposit may have been entered into Xero manually and never reached the bank i.e. still sitting in someone's draw of their desk.

Another possibility is that you may have entered the deposit correctly but allocated it to the wrong bank account in XERO for depositing and it was deposited into a second bank account in error. No matter what the reason, you need to investigate why the deposit is marked as going into your bank but has not been shown on the bank statement.

Finally, the message here is that unpresented cheques and deposits not yet credited should not exist and when they appear in your bank reconciliation at the end of the month they should be investigated and attended to by one means or another.

## **2.) Debtors Ledger (Accounts Receivable):**

At the end of each month a review of the debtors should be undertaken to examine the ageing of customer's accounts, the accuracy of balances and to determine if monies that have been paid by customers have been recorded and banked and that cheques received are not sitting in the desk draw unbanked.

You will need to run an **Aged Receivables Summary or Detail** report in Xero to see the amounts your customers owe, and how long they've been outstanding. Xero ensures the balances of your aged receivables match your general ledger at all times.

### To Run the Aged Receivable Report:

1. In the **Accounting** menu, select **Reports**.
2. Under **Sales**, click **Aged Receivables Summary** or **Aged Receivables Detailed** report.
3. Enter a **Date Range**.
4. (Optional) Click **Report Settings** to customise your report.
5. Click **Update**.

The report will include transactions if they were outstanding up until that date selected. For example, invoices that were awaiting payment on the report date are included, even if they've been paid since.

A check should also be carried out that all customers have been invoiced for the month and to ensure that double invoicing has not taken place. Also, any Bad debts should be written off by creating a credit note against the relevant invoice.

Once a review has been completed of the debtors report it can then be used to chase payments from customers as part of a debt collection process throughout the month.

If you'd like to refer back to this report at another time, you can **export this report** to either a PDF or spreadsheet format or **publish the report**.

**Warning:** Do not post or enter General Journal entries into the Debtors Ledger (Accounts Receivable) as you will not be able to reconcile the total of the Debtors Ledger to the Subsidiary Control Accounts of all the individual debtors. All entries including credit notes must be entered using the Sales Module

### **3.) Creditors Ledger (Accounts Payable):**

At the end of each month a review of the creditors should be undertaken to examine the ageing of vendor's accounts, the accuracy of balances and to determine if monies that have been paid to suppliers have been allocated to the correct creditor.

You will need to run an **Aged Payables Summary or Detail** report in Xero to see the amounts you owe to your suppliers, credit notes, overpayments or for expense claims unpaid, and if they're overdue. For best results, enter your purchase transactions and reconcile your bank accounts, before running the report. Xero ensures the balances of your aged receivables match your general ledger at all times.

#### **To Run the Aged Payables Report:**

1. In the **Accounting** menu, select **Reports**.
2. Under **Purchasers**, click **Aged Payables Summary** or **Aged Payables Detailed** report.
3. Enter a **Date Range**.
4. (Optional) Click **Report Settings** to customise your report.
5. Click **Update**.

The report will include transactions if they were outstanding up until that date selected. For example, invoices that were awaiting payment on the report date are included, even if they've been paid since.

A comparison of all paper copies of the vendor statements should be made to the XERO Aged Payables report to ensure that all supplier invoices that have been received or incurred have been recorded.

Please ensure that you are entering creditor / supplier invoices into XERO using the date on the supplier's invoice..... **dates are important.**

Please also be aware when applying a payment to an invoice, it is impossible in the real world to pay a supplier's invoice on a date before the invoice existed thus ensure that your dates are accurate as to when the invoice date is and the date you are using for payment of the invoice.

**Warning:** Do not post or enter General Journal entries into the Creditors Ledger (Accounts Payable) as you will not be able to reconcile the total of the Trade Creditors Ledger to the Subsidiary Control Accounts of all the individual creditors. All entries including credit notes must be entered using the Purchases Module

#### **4.) Sales Invoicing:**

At the end of each month you need to examine the sales overview module in Xero for Quotes to ensure that if an invoice needs to be rendered that it “is” created and sent to the customer and not left on the system as a Quote. You will also need to complete all of your billing up until the end of the period / month

XERO does not let users apply deposit payments made by customers against open Quotes, you will need to create a prepayment in your bank account, during the bank reconciliation, or from any screen in Xero as a type of receive money transaction to record deposits received.

The conversion of a quote to an invoice will at that point in time recognise the revenue in XERO and record the GST. After the invoice is created you will then be able to apply the deposit (prepayment) to the invoice.

#### **5.) Superannuation Payable:**

Superannuation is a statutory payment and must be made on time either quarterly or monthly. To meet your SuperStream requirements, you need to pay super contributions and send the associated employee information electronically to the tax office via a clearing house. XERO is SuperStream compliant and can be used to pay and report your superannuation contributions.

Superannuation is usually calculated by the payroll module in Xero and creates an expense that is posted to a Profit and Loss Statement and a liability in the Balance Sheet. In XERO you can process superannuation payments either automatically or manually at the end of each month which are detailed how to below.

##### **Steps to Process automated super payments**

Before you start you will need to ensure you have

- 1) added a regulated or self-managed super fund,
- 2) entered the super membership for employees.
- 3) added employee details to meet the data standards for SuperStream.

##### **To add employee details:**

- 1) Go to the **Payroll** menu and select **Employees**.
- 2) Click an employee's name to view their details.
- 3) Select the **Details** tab and add their personal and contact details, then click **Save**.

These details include **Last name, Email, Date of Birth, Gender, Address, Suburb, State** and **Postcode**.

- 4) Select the **Taxes** tab and add their **Tax File Number (TFN)** or **TFN Exemption**, then click **Save Only**.

### Create a new payment batch

- 1) In the **Payroll** menu, select **Superannuation**.
- 2) Click **Add Super Payment**.
- 3) From the payment details page, choose the lines to pay from the list of posted pay runs.  
You can filter this list by employee, super fund, employee group or payment due date by clicking on the column headings.
- 4) Once you've selected your accruals for inclusion in this batch, click **Submit for Approval**.

You will be redirected to the superannuation home screen where the batch will appear as **'Pending Approval'**.

Your nominated authoriser will receive a text from Xero with the authorisation code, which is valid for 24 hours. We'll also send an email to let them know we've sent the code by SMS.

### Authorise a payment batch

If you've received an SMS with an authorisation code to approve a super payment batch:

- 1) In the **Payroll** menu, select **Superannuation**.
- 2) Click on the batch which shows as 'Pending Approval'.
- 3) Review the list of payments included in the batch.
  - If you notice anything amiss, you can delete the payment.
  - If everything looks good, click **Approve**, then enter the authorisation code you received in the SMS and click **Approve & Submit**.

Xero will list the payment batch as **'Approved, pending processing'**. The payment will then be direct debited from your bank account and appear on your bank statement as **'PayClear Services'**.

**Warning:** It can take up to five business days for your payment batch to reach your employees' super funds. Once the super funds receive the contributions, the status will update to 'Processed'.

### Reconcile super payments

After you've made your super payments, you'll have spent items showing on your bank statement. Rather than reconciling to a bill, allocate the payments directly to your **superannuation payables account**, which will reduce the balance outstanding.

### **Steps to Process super payments manually**

To identify the amount of superannuation you need to pay for your employees, you should run a **Superannuation Accrual report**. This report lists the accruals for each super fund and includes details of each employee's contributions.

#### **To Run the Superannuation Accrual Report:**

1. In the **Accounting** menu, select **Reports**.
2. Under **Payroll**, click **Superannuation Accrual** report.
3. Enter the Report On details for **Employees, Date Range, Contribution Type and Super Fund** to customise your report.
4. Click **Update** to run the report

This report should also be compared against the amount disclosed in the superannuation cost account in the Profit and Loss Statement to see if they agree.

Next, you need to arrange payments for each applicable super fund and provide details of the employees' contributions through your SuperStream Clearing House and then Keep your records up to date in Xero by marking off super contribution payments that you've paid.

#### **Mark manual super contributions as paid**

1. In the **Payroll** menu, select **Superannuation**.
2. Click **Add Super Payment**.
3. Select the super fund lines which you've paid.
4. Scroll to the end and click **Mark as Paid**.
5. Click **Yes** to confirm

After the payment has been allocated the corresponding liability account (**Superannuation Payable**) in the Balance Sheet needs to be reconciled; the liability creates what one would consider a "clearing account". A clearing account is one that is cleared back to zero after the process of all accounting entries have been completed.

The payroll module creates the superannuation expense and the corresponding payable liability. When the liability is paid either monthly or quarterly and posted in XERO to the liability account then the liability account should clear back to zero if the amount of the payment(s) has been made correctly.

The reconciliation process here is to see that the payments made to staff superannuation providers agrees with the liability after the end of each payment period. If there is a balance left in the liability account for the specific period and after payments have been made for that period then most likely an error has been made in the payments made to superannuation providers. The discrepancy needs to be found and corrected promptly.

## 6.) Wages, Wages Payable and Payroll Clearing Accounts:

Payroll is a statutory payment and must be made on time in accordance with your payroll period.

If you've set up STP, you need to file wage payment after each pay run. You won't need to file PAYG payment summaries, instead you will need to finalise your STP data so the relevant information is automatically sent to the Tax Office.

Payroll reports in XERO are based on the payment date of pay runs and not the pay period end date. Adjust the date range of reports to see the information you need to reconcile payroll transactions to your accounts.

Wages, PAYG Withholding (Group Tax) and Net Wages Payable are usually calculated by the payroll module in XERO and it creates a Wages expense that is posted to a Profit and Loss Statement and a liability for PAYG Withholding in the Balance Sheet and a Net Wages Payable ("Clearing Account") in the Balance Sheet.

At the end of each pay run you attend to the following tasks:

- 1) Check that all pay runs for the period have been posted and have a payment date within the relevant month.
- 2) Check all wages have been paid through the business bank account.
- 3) Run the **Payroll Activity Summary** report. Review the pay item totals and the Activity Statement column.
- 4) Run the **General Ledger** report and check that all wage transactions have been reconciled correctly.
- 5) Compare the totals on the Payroll Activity Summary report with the General Ledger report to ensure amounts match.

Use the following table to check your payroll data by matching the report balances in your Payroll Activity Summary report and the General Ledger report.

Matching report balances		
In your Payroll Activity Summary		In your General Ledger Summary
Total Earnings	should match	Total Wages and Salaries
Total Super	should match	Total Superannuation
Total Tax	should match	Total PAYG Withholding Payable

If the balances don't match, check your pay run history to find the pay run with the error and process an adjustment.

To Run the Payroll Activity Summary Report:

1. In the **Accounting** menu, select **Reports**.
2. Under **Payroll**, click **Payroll Activity Summary** report.
3. For **Employees**, select all employees, an individual employee, or an employee group.
4. Select the date range to report on. If you want to include a specific pay run, make sure the report period includes that pay run's pay day.

Payroll reports use the payment date of each pay run, not the pay period ending date. For example, if a pay period ended on 31 July, but pay day was 2 August, you'll see it on reports for August.

5. Click **Update** to run the report

To Run the General Ledger Summary Report:

1. In the **Accounting** menu, select **Reports**.
2. Under **Accounting**, select **More Reports** to expand the section if the report is hidden.
3. Click **General Ledger**.
4. Select a time frame,
5. Click **Update** to view your report.

The payroll module in XERO creates the Net Wages Payable. When the liability is paid after each pay date and posted in XERO to the correct account then the Net Wages Payable account should clear back to zero if the correct payment(s) have been made (hence a clearing account). In this case after all the payroll payments have been made for the period it should agree with the liability that has been created by the payroll module leaving no liability left to pay for that period.

The reconciliation process here is to see that the payments made to employees agrees with the liability after the end of each payment period. If there is a balance left in the Net Wages Payable account for the specific period and after payments have been made for that period then most likely an error has been made in the payments to staff or the payroll run is incorrect. The discrepancy needs to be found and corrected promptly.

## 7.) GST Collected, GST Paid and PAYG Withholding:

As you lodge your BAS either monthly or quarterly it is essential that you transfer the GST Collected, GST Paid and PAYG Withholding for the period to the General Ledger account **“Amount Owing / Receivable – Tax Office”**. This is carried out by a General Journal and is dated on the last day of each period.

This will allow the Amount Owing to ATO account in the Balance Sheet to coincide with the ATO portal debt that the ATO records.

The way in which we suggest that this be determined is by following the below steps:

### Procedures before Finalising the BAS Return:

- 1) Reconcile ALL your bank, debtor, creditor Account's as per above instructions to ensure that all information is accurate and up to date.
- 2) Review adjusting (accruals / prepayment) journal entries to ensure that GST coding is correct.
- 3) Check other Journal entries to ensure no direct coding's have been made to the GST Account(s), besides the Quarterly Journal noted below.
- 4) Check to make sure that the correct GST has been claimed on the income and expenses.
- 5) Run the **Activity Statement** report and reconcile the GST clearing account(s) in the Balance Sheet against Label 9 (1A minus 1B Net Amount for this statement) figure in Activity Statement report for the Quarter / Month.

If this does not equal it could mean that there are back dated entries or entries made directly to the GST Account. **Needs to be investigated if the sum is large**

- 6) Create a new Balance Sheet account call '**Amount Owing / Receivable - Tax Office**'.
- 7) Once the completed BAS return has been submitted, bring in the following BAS lodgment Journal into your accounting system on the last day of the Quarter / Month: ie

### Journal entry once BAS has been Lodged

**30/06/2020**

Dr	GST collected / GST Clearing Account	\$10,000.00
Dr	Provision for Income Tax (B/Sheet Account)	\$1,000.00
	(if applicable for the quarter)	
Cr	GST paid / GST Clearing Account	\$3,000.00
Cr / DR	Amount Owing / Receivable – Tax Office	\$8,000.00

**Narration: Taking up amount payable / receivable for 30 June 2020 BAS Return**

To Run the Activity Statement Summary Report:

6. In the **Accounting** menu, select **Reports**.
7. Under **Tax**, select **Activity Statements**.
8. Click **Settings**.
9. Select **Simpler BAS or Full BAS**.
10. Check the rest of the settings are correct
11. Click **Save and Continue** to view your report.

If you're not ready to lodge your Activity Statement, save any amounts you've manually entered by clicking **Save as draft**. Alternatively Click **Export** to export your Activity Statement in Microsoft Excel or PDF format.

Once you have paid the Quarterly BAS or when you receive the GST refund, this amount is recorded against the "**Amount Owing / Receivable – Tax Office**" Account as normal.

The above procedures are designed to catch any back dated entries or entries made directly to the GST clearing account when the BAS is prepared as at the end of every quarter / month this account should always be zero. If it's not that's fine as when the BAS return is prepared these amounts will be accounted for in the very next BAS.

Also, by using the Amount Owing / Receivable – Tax Office account the RBA Account can easily be reconciled at any point in time as these two accounts should always balance each other.

## **8.) Statutory Accounts & Statutory General Ledgers and Clearing Accounts**

XERO creates clearing accounts so that they are able to be reconciled and cleared out to zero at the end of each account period, ie monthly or quarterly.

An example of these accounts are:

- Superannuation Payable,
- PAYG Withholding Payable,
- Payroll Clearing Account,
- Amount Owing to ATO.

These are deemed statutory accounts and are designed to clear to zero and to reconcile to other documents such as the ATO's Integrated Client Account (ICA) used by the ATO for tracking PAYG Withholding Payable & GST.

These general ledger accounts are statutory liabilities and not Trade Creditors or Accounts Payable and are not to be used in the same manner as Trade Creditors.

**You are not to treat these as Trade Creditors and create Purchase entries or journals for these accounts.**

These general ledger accounts and the entries that go into these accounts are **date sensitive** and must show the actual date entries have been transacted.

By using purchase type entries, you may cause date issues and reconciliation issues, hence we strongly recommend that you do not attempt to record transactions into these statutory by using the purchase module.

**9.) Petty Cash:**

A petty cash float should be established if the business does not use company credit cards.

The amount recommended is determined by the size and needs of the business, an amount of \$500 is suggested and must be retained in a proper petty cash box not loose or in an envelope in a drawer.

Only one individual must have access to this money and a support staff member when the nominated person is not available.

Any money withdrawn must have a receipt for the equivalent amount replacing the money withdrawn, this receipt must have the GST requirements clearly identified.

If an advance is given to a staff member a voucher stating the person advanced the money and the date must be placed in the petty cash box as substitution for the amount taken.

The voucher within a very short and reasonable time will be replaced by receipts representing the monies spent and any change being returned. No loans are to be made out of petty cash to staff unless approved by one of the company directors.

A petty cash impress sheet must be maintained and a running balance on that sheet must always equal the sum of cash in the petty cash box and advance vouchers. When the amount in petty cash reduces to an unworkable level the difference of the original float amount less the money in petty cash will be drawn by cheque and cashed.

The receipts from petty cash will be attached to the cheque requisition (along with the petty cash impress summary sheet) and will always equal the amount spent. Thus all monies spent represented by receipts is replaced periodically and the float will always be returned to the original sum. No hidden floats are to be kept.

## **10.) Suspense accounts:**

Please ensure that you examine the suspense account at the end of every month and clear out all entries as soon as possible, the suspense account is used for storing entries that are unknown for the shortest possible time and so as not to hold up processing and reconciling items and until such times as answers are obtained. It is not an account to be forgotten about!

## **11.) Customer Deposits (liability in Balance Sheet)**

Please ensure that you examine this account at the end of every month and clear out all entries as soon as possible, this account is used for storing prepayments by customers at a time when invoices have not as yet been rendered and posted into XERO.

### *To view unallocated prepayments for a specific customer*

Use the **Contact Transactions - Summary report** to see all transactions for a particular customer over a given period, then filter by source to only show prepayment transactions. To do this:

1. In the **Accounting** menu, select **Reports**.
2. Click **Contact Transactions - Summary (New)**.
3. Select a contact and date range.
4. (Optional) Select any filters you want to be applied.
5. Click the settings icon, then select the **Include prepayments** checkbox.
6. Click **Update**.
7. Click **Movement during period** to view the Contact Transactions - Receivables report.
8. Click **Report Settings**.
9. Under **Columns**, select the checkbox for **Amount Outstanding** and **Transaction Amount** and any other columns you'd like to display.
10. Click **Add a filter**, then select **Source**.
11. In the **Source** menu, clear the **All** checkbox, then select the checkbox for the three prepayment transactions.
12. Click **Update**.

The report shows all of the prepayment transactions for the contact within the date range specified. The **Amount Outstanding** column shows how much of the prepayment is yet to be allocated to an invoice.

If your customer has outstanding credit from a prepayment, Xero prompts you to allocate the credit next time you approve a sales invoice for that contact.

This is not an account to be forgotten about!

## **12.) Inter Company Loan Account**

There may be instances where there is more than one entity in your business group and there are transactions between entities in your group.

An example of this is that Company "A" pays a bill on behalf of Company "B" or Company "A" lends money to Company "B" there are other examples but in effect it means that transactions need to be recorded in both sets of books to take up what has occurred.

In these cases, Loan Accounts are created in each entity that will show the monies owing from entity to entity. It is important to record these transactions in both XERO Files as they happen so that they are not forgotten and to remember that an Asset in one set of books is a Liability in another.

The month end reconciliation is to ensure that both XERO files reconcile with each other and are in sync.

### **Other month end procedures:**

Review the monthly Profit and Loss to see if there are any odd amounts sitting in the statements that may have been posted to an incorrect account.

In some of Xero's reports you can compare actual income and expenditure against budgeted figures. Enter a **budget**, then show the budget on reports such as the **Profit and Loss report** and **Budget Variance report**.

Publish any of Xero's reports to keep a copy of it in Xero. You can run reports for any date but if you publish a report, it's kept as a static copy in PDF or spreadsheet format on the Published tab.

You can also save PDF or Excel reports to your computer and email from there if required.

If you have any queries with any of the suggested procedures please do not hesitate to contact our office.

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