



How to prepare the GST Reconciliation

At period-year-end it is necessary to prepare reconciliations for all accounts in the balance Sheet - all assets and all liabilities and equity accounts.

The church's auditor or an assurance reviewer will expect to see these reconciliations. The reports will be checked against the balance sheet and randomly against the source documents.

This GST Reconciliation is a key report because it refers to balances with the ATO.

What is the GST Reconciliation Report

It explains the difference between the GST balance in the balance sheet and the GST on the BAS to which it refers.

Why is it necessary

To correctly represent the GST in the Balance Sheet.

It is used periodically for the treasurer/finance team to be assured that the GST is accounted for correctly and that the balance showing on the balance sheet is correct. Importantly, it is used at year end to prove to the Auditor or Assurance Reviewer that the GST balance on the Balance sheet is correct.

Why would the GST balance on the balance sheet and the BAS be different?

Check your BAS for the method used to report GST to the ATO for your church, and check your Xero setup for the method used to calculate the GST in the accounts - the method must be the same.

If the GST Calculation method is Accrual Basis, the GST in the Ledger should equal GST in the BAS (roughly). It will be necessary to search for the differences that create the overall variance between balance sheet and BAS. See notes to follow below.

If the GST method is calculated on a Cash Basis – the GST balance on the balance sheet and the BAS *will not equal*.

Explaining the Cash Basis method variance:

- it is because when we create bills and invoices, our accounting systems generally operate on an accrual basis,
- therefore, the GST balance on the balance sheet and the BAS ***should only be different due to the GST included in the outstanding invoices and bills.***

Small variances are fine – say up to a few hundred dollars.

See the recommended report format on page 3 below

Why is my variance greater than a few hundred dollars?

This is quite common. This is because the GST balance has been accumulating since 1st July 2000. To be accurate, every GST transaction and every BAS must have been accounted for in your accounting system and in the BAS correctly since 1/7/2000.

The main reasons why you may have a large variance are:

- BASs have been incorrectly calculated and filed with the ATO during the year or prior years
- Changes have been made to transactions in your accounting system after the BAS for that period has already been filed with the ATO
- The BAS transaction has been entered incorrectly – it should be split between PAYG & GST and other aspects if applicable



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How do you fix the variance ?

Here are a few steps the we perform

- Firstly, check that the BAS transactions have been correctly entered. If necessary, correct them for the period not yet audited.
- Then, determine if the variance is mostly from the most recent year or previous years. To do this, perform the same GST Reconciliation as at the end of the prior year.
- If it is mostly from the most recent year, rerun the Activity reports for each BAS period and compare the result to the actual BASs' submitted.
- Where there are large differences, consider resubmitting the incorrect BAS. (contact the ATO to do this). Alternatively, if the GST effect is less than \$3,000 adjust your next BAS to "take up the variance".
- If the variance is from prior audited years, discuss with your accountant or auditor or assurance reviewer. If the amount is, say, less than \$3,000 we recommend that you enter an adjustment to correct the GST or PAYG balances and move on. If the variance from prior years is many thousands of dollars, it may be worth performing the above checks for prior years to try to isolate the error(s) and consider action based on what you find.

This is the report format we use at Benkorp for all our clients:

Name of Organisation	
as at 31 Dec 19	
Cash Basis	
Ledger GST Balance as at the end of the year	-\$2,029.18 (from the Balance Sheet)
add Outstanding GST from Accounts Payable Report	\$1,059.85
less Outstanding GST from Accounts Receivable Report	\$330.23
Adjusted Ledger GST Balance as at the end of the year	-\$1,299.56
December BAS - GST	-\$1,232.00 (From BAS)
Variance	-\$67.56

Trying to find GST errors in the past is a very time-consuming. However, if you expect a large cash refund, it might be worth it.

Contact us if you would like help with any of this and the reconciliations