

CASH ACCOUNTING FOR VAT

Overview

When using invoice-based data entry the VAT can be accounted for in one of two ways:

1. it can be dealt with at the point of entering the invoice, (Invoice Based VAT), OR
2. the VAT can be dealt with at the time of paying the invoice(s), (Cash Accounting for VAT).

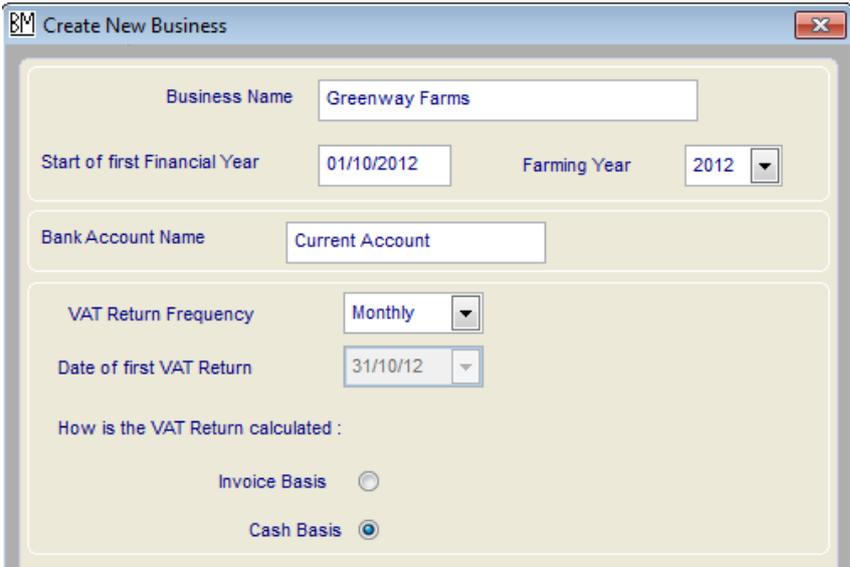
This is normally used for businesses that issue a proportionately large number of sales invoices with VAT on them and tend to be net payers of VAT. eg a contracting business.

IMPORTANT This method of calculating VAT is only available to certain businesses whose turnover is under a certain figure. To check your businesses eligibility please contact your local VAT office before opting for Cash Accounting.

<http://www.hmrc.gov.uk/vat/start/schemes/cash.htm>

New Businesses on Farm Business Manager

If this is the first time the program has been used you will be able to choose 'Cash Basis' when the new business is created.



The screenshot shows a 'Create New Business' dialog box with the following fields and options:

- Business Name: Greenway Farms
- Start of first Financial Year: 01/10/2012
- Farming Year: 2012
- Bank Account Name: Current Account
- VAT Return Frequency: Monthly
- Date of first VAT Return: 31/10/12
- How is the VAT Return calculated :
 - Invoice Basis:
 - Cash Basis:

If you select the option 'Cash basis' the VAT will not be entered against a VAT return until the invoice is paid and subsequently cleared (cash accounting for VAT) using Quickpay or Ledger Payments.

Existing Businesses

If the business was created using the VAT setting of 'Invoice Basis' but you now wish to change to 'Cash Basis' this is altered in Setup / VAT / VAT Settings.

VAT Settings

VAT Reg No. GB 1234567

Current Calculation Method: Cash Basis

Current Frequency: Monthly

Current VAT Period End Date: 31/10/2012

Change Details

Warning – this should only be changed after very careful consideration. Any invoices and payments that have been entered previously and are still outstanding on an open VAT return will have their VAT treatment re-assigned. We therefore recommend that you ensure that all completed VAT periods under the old method have been closed before taking this option.

Operating a Cash Based VAT system

Enter any invoices in the normal way showing both the net figure and VAT.

Purchase Invoice

Supplier: J P Golding, Reference: 121112, Entry Date: 28/11/2012, Pay By Date: 30/11/2012, Amount: 0.00

Allocation	Description	Quantity	Price	Amount	VAT Rate	VAT Amount
Heading Code: SA Contracting	Description: 60 hours hedge trimming	Quantity 1: 0.000	Price: 0.000	Net: 0.000	VAT: 1500.00	VAT Amount: 300.00
Enterprise: Gen12 -- General 12		Quantity 2: 0.000		Gross: 1800.00		

Payment On Hold

At this point the VAT is not entered onto a VAT return although it will be shown on the Revenue & Customs ledger.

When the Invoice is paid the VAT is shown on the VAT return in the same period as the payment. The VAT audit report will show the original invoice along with its corresponding ledger payment.

Entry No.	Entry Type	Heading Code	VAT Type	Supplier/ Customer	Entry Date	Non VAT Amount	Value Of Outputs	Value Of Inputs	VAT Sales	VAT Purchase
1	P. Invoice	Contracting	S	J P Golding	28/11/12			1500.00		300.00
2	Ledger Cheq	Supplier Unallocated	N	J P Golding	15/12/12					

Rules of Cancelling/Editing

Invoice- Invoices are available for full edit until the VAT period in which they fall has been closed. At this point invoices can only be cleared with a corresponding credit note. Additionally only the coding and description can be edited.

Ledger Payment – If this falls in an open VAT period it can be edited or cancelled unless it has been reconciled at the bank. If it falls in a closed VAT period it cannot be edited or cancelled.

To remove a ledger payment from a closed VAT period enter a ledger receipt refund to correct the bank.

No.	Date	Type	Tran. Total	Inv. Ref	Due Date	Item Description	Total	Pay
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No.	Supplier	Bank Account	Entry Date	Payment Type	Payslip	Amount
3	J P Golding	Current Account	15/12/12	Cheque	1	1800.00

Select how to allocate the VAT which will show on the new months VAT return.

To be able to deal with Cash Based VAT it is necessary to give the unallocated amount a VAT Status. this will enable it to appear correctly on the VAT return.

Please choose the appropriate code for this unallocated amount.

Standard

OK Help

IMPORTANT INFORMATION

WARNING – Two way traders We recommend that the two way trader option is NOT used for businesses operating a cash based VAT system unless the invoices involved both have a single identical VAT status.

Please contact software support for further information.

WARNING – the ‘Clear’ button Only use the ‘Clear’ button in Ledger Payments to match an invoice with an on account figure if it was created by entering a ledger payment/receipt (and VAT already accounted for) or credit note where the items being cleared balance.

WARNING – ‘On account’ entries Never split the entry of an invoice and an ‘on account’ payment with a change in the VAT calculation method or you may double the VAT claimed or miss claiming it at all – for example:

- If the ‘on account’ figure was there from an entry made before the business was on cash accounting then the VAT may get overlooked. To account for this enter a new ledger payment/receipt so that the VAT is dealt with correctly now but then do a journal between the bank account and the supplier/customer ledger to reverse it.
- If the VAT has been claimed on an invoice, before changing to Cash based VAT and a ledger payment is entered without clearing the invoice, at that point the VAT will be claimed twice.
- In reverse – entering a ledger payment under cash accounting would claim the VAT, but if the VAT was later changed to Invoice based and the invoice entered, the VAT would be claimed again.

IMPORTANT The above situations will only occur after a change of VAT calculation if the VAT periods have been closed.

Please contact Farmplan software support for further information.