Bringing your Business into Balance

HEMISPHERE
ACCOUNTING

Accounting for COVID 19 Incentives

FACT SHEET

ACCOUNTING TREATMENT FOR THE CASH FLOW BOOST RECEIPTS

The Cash Flow Boost scheme provides temporary cash flow support to small and medium enterprises to help meet wage and other commitments.

The Cash Flow Boost Stimulus is paid across the June and September 2020 quarters.

There are 2 tranches of Boost: the first is paid on lodgement of the March BAS and is paid as a credit into the ICA account and is income tax free and free from GST (as the amount does not represent a taxable supply).

It is quite unusual in nature being income tax free and is important to properly record it in a client's books of account.

The amount of Cash Flow Boost is not turnover so is not taken into account as turnover for PAYG Instalment purposes nor is it taken into account when measuring turnover for JobKeeper eligibility.

Example – Cash Flow Boost # 1

Lydia's Lighting Shop lodges its March BAS has $3,000 PAYGW and $2,000 net GST owing to the ATO (the normal period BAS totals).

When submitted the BAS, Lydia receives a $10,000 credit of the first Cash Flow Boost and her ICA account results in a $5,000 credit which is ultimately refunded.

Q: What are the entries to record the Cash Flow Boost payment?

A: Firstly we establish a general ledger account to post the Cash Flow Boost stimulus benefit to.

For the sake of this fact sheet we have called it "Cash Flow Boost" and it is an income account in the profit & Loss statement.

It is best to record it in the Other Income section to avoid it interfering with presentation of Gross Profit in your Profit & Loss Statement.Deposits to the account are BAS Excluded and do not get reported on the BAS so select the appropriate GST tax code to suit your software.

There are a number of different ways practitioners typically deal with the posting of BAS Payments, so firstly we have focussed on the outcome that is required more so than the means of achieving it as there are several ways of getting to a correct outcome.

Ultimate Outcome for Cash Flow Boost Stimulus Refund

Debit	PAYGW Payable	$3,000
Debit	GST Collected / Paid	$2,000
Debit	Bank	$5,000*
Credit	Cash Flow Boost	$10,000

* Please note this is the accounting outcome, not a general journal to post as we all know you don't post general journals to bank – read on

There are a number of ways to get to the above end, including but not limited to:

- A journal entry to record the extinguishment of the BAS Liability

Debit	PAYGW Payable	$3,000
Debit	GST Collected / Paid	$2,000
Debit	Bank	$5,000*

* The cash receipt of $5,000 into the bank account is posted to Cash Flow Boost (Other income account – details above)

- If the Integrated Client Account (ICA) is set up as a bank account all above entries could be treated as cash receipts or payments.

- Some may have established a general ledger Control Account for the clients ICA where the entries would be:

Debit	PAYGW Payable	$3,000
Debit	GST Collected / Paid	$2,000
Debit	Bank	$5,000*
Credit	Cash Flow Boost	$10,000
Credit	Cash Flow Boost	$10,000

* On receipt of $5,000 into the bank account it is posted to Control Account - ICA

There are no doubt other possible treatments used in dealing with a client's period end BAS posting that get to the same outcome; but the important outcomes are:

- The creation of an Other Income account appropriately titled that records and isolates the full amount of the government's Boost Stimulus payment;

- The income account would ideally be kept separate from other income accounts and titled to clearly identify it as the accountant will give Cash Flow Boost receipts a unique treatment in the year end Income Tax Return. For this reason, it is best not to simply lump it into a miscellaneous income account where its identity could be overlooked at year end;

- The clearing of normal period end GST and PAYGW control accounts;

- The income account is not subject to GST nor is it a GST-Free supply; it is simply not a taxable supply (BAS Excluded) and thus is not recorded on the BAS.

Further Cash Flow Boost # 1 amounts could be received on monthly IAS and BAS for the months of April, May and June (in the case of a monthly lodger) or on the June BAS (in the case of a quarterly lodger).

The accounting, BAS and income tax treatment would be the same as above.

The total amount of Cash Flow Boost # 2 received is the same as Cash Flow Boost #1.

It is received in four equal monthly instalments on lodgement of June – September BAS and IAS (for monthly lodgers), or 2 equal instalments on lodgement of June and September BAS (for quarterly lodgers).

The accounting, BAS and income tax treatment would be the same as Boost #1 above.

ACCOUNTING TREATMENT FOR JOBKEEPER STIMULUS RECEIPTS

The JobKeeper scheme provides a wage subsidy to Covid affected employers for certain Eligible Employees and Eligible Business Participants.

Its purpose is to help keep employees connected with employers during the period of Covid- induced downturn and into the recovery phase.

The JobKeeper stimulus is paid as a subsidy for wages paid for the 6 months April to September 2020.

The amount of the payment is $1500 per eligible employee per fortnight.

The same amount is paid for one Eligible Business Participant per entity.

An eligible Business Participant could be a sole trader, a partner in a partnership, a beneficiary of a trust or a shareholder/director of a company that are not already included as an eligible employee.

The JobKeeper subsidy is paid directly into a nominated bank account on lodgement of a monthly 'claim' form.

The JobKeeper Subsidy is:

• assessable income and included in the recipient's tax return;
• not subject to GST;
• not reportable on BAS.

JobKeeper payments are expected to be paid by the ATO within 14 days of the end of each calendar month (subject to the requirements being met) and the monthly lodgement being completed.

Firstly we establish a general ledger account to post the JobKeeper stimulus benefit to.

For the sake of this fact sheet we have called it "JobKeeper Subsidy" and it is an Other Income account in the profit & Loss statement.

It is best to record it in the Other Income section to avoid it interfering with presentation of Gross Profit in your Profit & Loss Statement.

Deposits to the account do not get reported on the BAS (they are BAS Excluded) so select the appropriate GST tax code to suit your software.

Example – JobKeeper Wage Subsidy

Lydia's Lighting Shop (a sole trader business) has two Eligible Employees as well as Lydia working in the business who is an Eligible Business Participant. Each employee earns more than $1500 per fortnight.

Lydia receives a JobKeeper stimulus amount of $9000 for the month direct into her nominated account.

Q: What are the entries to record the JobKeeper Receipt?

A: There are a number of different ways practitioners might deal with the posting of JobKeeper Stimulus receipts so we will focus on the outcome that is required more so than the means of achieving it as there may be several ways of getting to a correct outcome.

Ultimate entry for Cash Boost Stimulus Refund

Debit	Bank	$9,000
Credit	JobKeeper Subsidy	$9,000

There are a number of ways to get to the above end, including but not limited to:

- Simply posting the amount as a cash receipt to the newly created general ledger
- account;

- Posting an entry to accrue the amount due in the relevant claim month either through a receivables module or as a general journal. If posting through an integrated
- receivables module then use normal invoicing process and if using an unlinked Other Receivable account (perhaps a separate general ledger account titled "JobKeeper Subsidy Receivable" – or similar) then a General journal will suffice – effect:

Debit	Receivables	$9,000
Credit	JobKeeper Subsidy	$9,000

* Then on collection post the actual receipt of JobKeeper money to the linked receivables module or to the general ledger receivable account (depending on the approach you have selected).

The important outcomes are:

- The creation of an income account appropriately titled that records and isolates the full amount of the JobKeeper stimulus payment;

- No GST is recorded nor does the amount get reported on a BAS;

- The receipt is not set off against a wage expense as that will make it difficult to reconcile wages at year end;

- The amount is not treated as a clearing account where funds are received on behalf of an employee and simply passed onto them, such as PPL. It is a subsidy that has the character of income.

ACCOUNTING TREATMENT FOR COVID APPRENTICE SUBSIDY

The Covid-based apprenticeship scheme sees a 50% subsidy in apprentice wages up to a maximum of $7000 per quarter for the 9 months ended 30 September 2020.

Its accounting treatment is essentially the same as for the JobKeeper stimulus (outlined above). We would advocate establishing its own unique general ledger account titled "Covid Apprentice Subsidy" or similar.