

Business Accounting & Bookkeeping South Yarra



Which of the accounting methods to choose from?

Cash Based Accounting

Which recognizes revenue when cash is received, and expenses when they are paid, mostly used by SME business with a turnover below \$2 million.

The characteristics are:

- It's simple to maintain, most suitable for service businesses
- No need "accounts receivable" or "accounts payable" records
- Cash in and out of bank is lined with sales and purchases, easy to understand the cash flow of the business
- GST and income tax are being taxed until cash is received or paid

Accrual Based Accounting

Revenues and expenses are recorded when they are earned,

regardless of the money is actually received or paid, most larger business use this method.

The characteristics are:

- It gives a realistic idea of income and expenses should be during a period of time, therefore most suitable for trading businesses
- Need to keep records for “accounts receivable” and “accounts payable” and closely monitoring the changes
- It doesn't provide any awareness of cash flow
- A business can appear to be very profitable while in reality it has empty bank accounts
- GST and income tax are being tax based on issuing a tax invoice or receiving payment, whichever happens first

For other business related accounting and bookkeeping and taxation inquiry, please visit our company website: [www. Mastaxsouthyarra.com.au](http://www.Mastaxsouthyarra.com.au) or call: 03 9279 3912