

Coding Guidelines for Dowse Murray Xero Clients

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The key to using Xero effectively is to reconcile often and to the appropriate account codes.

Xero provide a standard chart of accounts with the most common ledger account codes and we have added a few more that we have found useful. However it's still not always obvious what account code to use so we have put together this coding guide – if after reading this you are still unsure as to how to code a receipt or payment contact us.

To view all the available account codes in Xero go to the Settings/Chart of Accounts screen. There is also an option there to print a PDF report showing all the codes.

Check our Xero Coding Guidelines and FAQ online at <http://www.dowsemurray.co.nz> to make sure you have the latest copy – as clients ask us coding questions we will update this guide with the answers.

First up a note about coding tax payments to IRD

After processing the first Xero accounts for a full year we have found there is some confusion over where to code various tax payments to IRD to – it's not surprising as there are a lot of them!

To simplify things we have removed some extra codes that are not needed and renamed the remaining tax codes. You should code the multitude of IRD tax payments/refunds as follows:

FBT payments/refunds: **427 IRD Fringe Benefit Tax (FBT)**

PAYE payments/refunds: **477/PAYE IRD PAYE Tax**

Residents withholding tax payments/refunds: **635 IRD Residents Withholding Tax (RWT)**

Income tax and provisional tax payments/refunds, and any penalty payments: **830 IRD Income and Provisional Tax**

GST Payments/refunds: **820 GST**

A couple of things to note:

1. Don't code anything to **505 Income Tax Expense at Year End** – it's for us to use when finalising the tax position at year end.
2. If you type IRD in the account code box on the reconciliation screen it will bring up all the relevant codes for all taxes except GST.
3. If in doubt code to 830 IRD Income and Provisional Tax.

ACC Levy

Code to 390 Accident Compensation Corporation (ACC Levy).

Bond receipts and payments

For rental properties code bond receipts and bond payments to 880 Bond.

Bond kept back

If you are retaining some or all of a tenants bond to pay for damage or missing rent you can use this procedure to transfer the amount from the 880 Bond account to the appropriate income account.

For example to pay \$100 kept back due to damage into Other Income:

1. On your bank account (doesn't matter which one) click Manage Account/Receive Money.
2. Enter in a receipt of \$100 for account 260 Other Income with details "Transfer from Bond to pay for damage to flat".
3. Add a second line item.
4. Enter in a "receipt" of -\$100 (i.e. a minus amount) for account 880 Bond with details "Transfer to Other Income to pay for damage to flat".
5. Make sure the total value of the Receive money transaction is \$0.
6. Click Save.
7. Mark the transaction as reconciled.

For this to work both accounts must have the Enable Payments option ticked in the chart of accounts.

Capital

Code initial share capital to 975 Capital.

Donations

If the entity you have paid the donation to is a registered charity then code to 418 Donations, otherwise code to Drawings.

Remember though if you receive something for your payment to a registered charity (e.g. Christmas cards) then code to the appropriate expense code (e.g. 453 Office Expenses) as the payment is not a donation.

Entertainment

Usually entertainment expenses (meals and drinks consumed off the office premises) are 50% deductible so you code half of the payment to "420 Entertainment" and half to "424 Entertainment – Non deductible". You can do this in Bank Reconciliation by clicking the Add Details link on a transaction and adding a second line.

If you bring food or drinks into your office (e.g. Friday afternoon drinks) code to 453 Office Expenses.

Equipment less than \$500

For purchases of equipment less than \$500 (excluding GST) per item code to the appropriate expense code (e.g. for a printer code to 310 Computer Equipment).

Equipment \$500 or greater

Equipment costing \$500 or greater (excluding GST) is treated as a fixed asset and must be coded to an asset account in the 700 series (e.g. 710 Office Equipment). At the end of the financial year we will calculate the depreciation for the assets and code it to the assets depreciation account.

Expenses paid for personally

For individuals and small businesses we recommend keeping a breakdown of expenses in a spreadsheet and periodically making a payment from the business account to you for the amount of the expenses. Then when you reconcile the payment in Xero use the Add Details link to add a line for each of your expenses selecting the appropriate expense code.

Alternatively you can use the Xero expense claim facility and then **either** transfer the money to pay you the total of the claim **or** pay it out of funds introduced. Coding it to Fund Introduced adds it to the amount the business owes you and will be offset it against drawings at year end. There are more steps involved in using an expense claim but it does mean you don't need to keep a separate spreadsheet for expenses. The steps involved are:

1. Create an expense claim and add receipt(s)
2. Submit for approval
3. Approve
4. Pay the claim (transfer money or from Funds Introduced)

The detail below is from the Xero online help with a bit added in about how to pay from Funds Introduced. You might like to try it out in the demo company first.

1. **Enter your receipts.**
Enter each receipt individually into the current expense claim (displayed by default) using the Add Receipt button on the main Expense Claims screen. These will total up automatically so you can see how much your claim will be for.
2. **Submit your claim.**
When you have entered all the receipts you want to claim and it's time to 'hand' your expense claim in, submit it for approval using the Submit for Approval button on the main Expense Claims screen to submit all the receipts ticked.
3. **Approve the claim.**
Open each claim on the Awaiting Authorisation tab and approve or decline the receipts on the claim. Authorise the claim for payment by entering the payment and reporting date (the date you want it recorded in Xero).
4. **Pay the claim from your bank account.**
Go to the claim on the Awaiting Payment tab and enter the amount of the claim, the date it will be paid, the bank account it will be paid from and click the **Paid** button. Then make the

payment from your bank account (cheque or online banking) and once the payment has gone out of your online bank account it will appear in Xero as a transaction to be reconciled. When you click reconcile now it should be matched to the expense claim so all you need to do is click OK.

5. **Alternatively you can pay the claim from Funds Introduced.** Go to the claim on the Awaiting Payment tab and enter the amount of the claim and then in the Paid From drop down list select Funds Introduced and click the green Paid button.

Regardless of which way you do it make sure you put plenty of detail in the description field so you don't have to go hunting later to find out what the payment was for.

FBT payments and refunds

Code to 427 IRD Fringe Benefit Tax.

GST payments and refunds

Code to 820 GST.

Income tax and provisional tax payments

Code all income tax and provisional tax payments to 830 IRD Income and Provisional Tax. Also code any penalty tax payments to 830.

Overseas income

Make sure you select Zero Rated in the GST field when reconciling monies received from overseas. If you regularly receive overseas income you may want to create an account specifically for this set to No GST.

Overseas purchases

Make sure you select Zero Rated in the GST field when reconciling overseas purchases.

PAYE payments to IRD

Code to 477/PAYE Paid (if this code does not exist then use 477 Salaries).

Paying yourself

Code to 980 Drawings.

Paying money into the organisation

If you transfer money into the organisation (e.g. to help pay for mortgage interest for a rental property) code to 970 Funds Introduced.

Payments using a business credit card

The easiest way is to set it up as a bank account and then reconcile the transactions as you do for an ordinary bank account. If you have a BNZ credit card you can get automatic daily statement feeds so

it works just like your other accounts. If you don't have a BNZ credit card you can still set up the card in Xero but you will need to manually import statements on a regular basis so you can reconcile them. A simple way to do this is early each month import transactions from the second day of previous month to the first day of the current month – e.g. on or after 2nd February import transactions from 2nd January to 1st February. That way you won't miss or duplicate any transactions.

Just remember if you have the card setup as a bank account when the payment goes out of your transaction account to pay the bill code this as a Transfer not a payment (see Transfers later in this guide).

If you don't set the card up in Xero then when you pay for the credit card bill from one of your business bank accounts the payment will come up as a transaction to be reconciled. When you reconcile the payment in Xero use the Add Details link on the Create tab to add line items for each of the purchases the payment is paying off, coding each to the correct account code. This will only work if you always pay off the full amount rather than the minimum payment.

There is a good explanation of how to manage credit cards on the Xero Help Centre <http://help.xero.com>

Payments using a personal credit card

If you use it mostly for business then treat it as a business credit card as above and code any personal transactions to Drawings.

If you use it mainly for personal use and occasionally make a business purchase then claim the expenses back as detailed in "Expenses paid for personally" above.

Refunds

Refunds you receive will appear as receipts in the bank reconciliation. Code them to the same account you coded the original payment to.

Refunds you give will appear as payments in the bank reconciliation. Code them to the same account you coded the original receipt to.

Reimbursable Expenses

If you invoice a client for expenses you incur then you should code the payment from the client for the expense to the same code you put the expense to. For example if you paid for travel within New Zealand you would code the payment to 493 National Travel and when the client pays the invoice you would code the portion reimbursing your travel costs to 493 also.

Rental properties

In other accounting systems you would usually set up separate ledger codes for each rental property then code the transactions to these. This gets unwieldy as you end up with a lot of account codes that are effectively the same thing. Xero has a better way of doing it called "Tracking". You set up a tracking category (e.g. Rental Properties) and then add each rental property as an item (e.g. 53

Marine Parade, 17 Hill St) and whenever you reconcile a transaction you can select the category and property that the transaction relates to from a drop down list. The Xero reports have options that allow you to report by tracking category.

There is more detail on this at the Xero Help Centre <http://help.xero.com>

Rental property mortgage interest

Code to 437 Interest Expense.

Rental property mortgage principal

Code to 437 Interest Expense. Its too difficult and error prone to split out any principal payments during the year and many mortgages for rental properties are interest only or just have small amounts of principal repayments. As part of preparing your end of year accounts we will create journals in Xero to handle any mortgage principal paid off during the year.

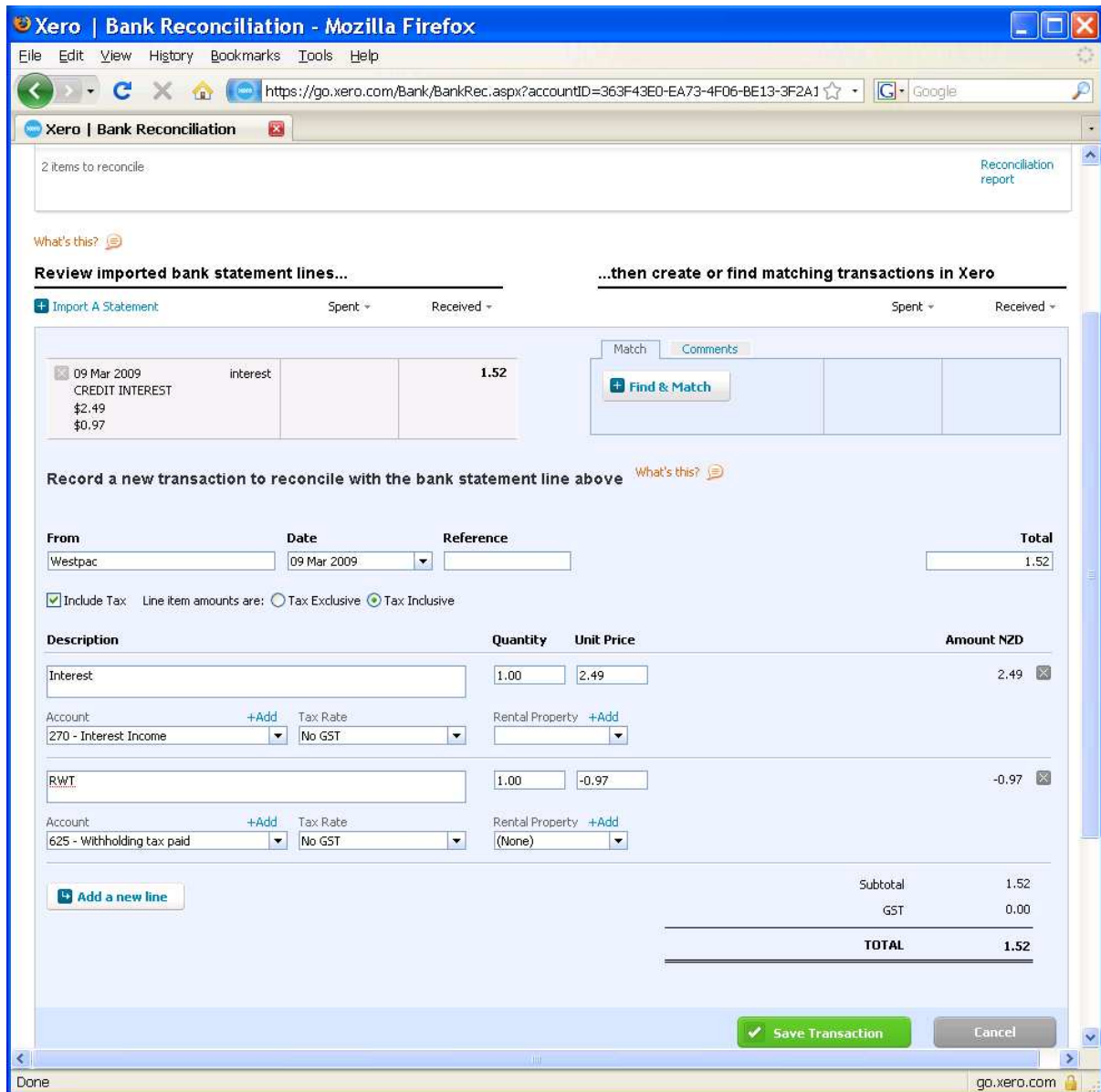
Rental payments from property manager

If your item to be reconciled shows an amount received from a property manager for a rental property and the amount is net of property management fees, repairs, advertising etc then you need to "add details", then "add a new line(s)". Enter the gross rent according to the property manager's monthly statement coding to 200 Rental Income, then in the next new line add in the property manager fees, then repairs and maintenance, advertising etc as **NEGATIVE** amounts. The net amount should then equal the amount received, allowing you to complete the reconciliation.

RWT deducted at source

Code to 625 IRD Residents Withholding Tax (RWT).

Some banks (e.g. Westpac) when they pay interest on your positive account balance deduct Residents Withholding Tax at source and just pay the net amount. To record the fact that you have paid some tax on it when you reconcile the transaction use the Add Details link to enter in two lines – the gross amount paid (this will be shown in the bank transaction line as a comment) coded to interest received and a negative amount of the RWT deducted coded to 625 Withholding Tax Paid. The screen image below show how this looks:



Transfers between bank accounts in Xero

In Xero you can code transfers between bank accounts directly in the reconciliation screen. On the right hand side of the reconciliation screen there are Match, Create, Transfer and Comments tabs.

- Source account: When reconciling a transfer select the Transfer tab and then select the bank account the transfer is going to. Click reconcile.
- Destination account: When you reconcile the transfer transaction Xero should match it up with the transfer you created in the source account and show it on the Match tab. Click OK to reconcile.

