

Summary of Source Documents and Related Journal Entries

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Source documents provide the foundation on which accounting information is built. If the foundation is to be sound, source documents must be first interpreted by accounting personnel, who then enter proper debit and credit amounts. Pay close attention to the names of the source documents listed on the left side of the table below. If you learn them well, you will quickly come up with the correct journal entries listed on the right side of the table shown.

Source Document	Transaction Description	Journal Entries	
		Account(s) Debited	Account(s) Credited
Cash sales slip; POS summaries	A sale of goods or services for cash	Bank	Sales or Revenue
Sales invoice	A sale of goods or services on account	Accounts Receivable	Sales or Revenue
Purchase invoice	A purchase of goods or services on account	1. An expense account, such as Advertising 2. An asset account, such as Supplies or Equipment	Accounts Payable
Cheque copy	1. Paying an account payable 2. Cash purchase of an asset * 3. Cash payment for an expense * 4. Owner draws out money for personal use	1. A liability account, such as Accounts Payable 2. An asset account, such as Automobiles 3. An expense account, such as Rent Expense 4. The Drawings account	Bank
Cash receipts daily summary	The cheques received from customers on account	Bank	Accounts Receivable
Bank debit advice	Bank account decrease	Interest Expense or other account	Bank
Bank credit advice	Bank account increase	Bank	Interest Earned or other account

* Must be accompanied by a bill or receipt.

Additional Supporting Documents

In addition to the source documents listed above, you may encounter the following:

- receipts, such as those for donations or postage
- bills, such as hydro or telephone charges
- email invoices
- online banking transactions with accompanying confirmation numbers

Sales Taxes

◀ 6.3

Normally, both a buyer and seller will benefit from a business transaction because the person on each side of the deal will get something he or she wants. The buyer receives a good or service; the seller receives payment or the promise of payment.

The economics of buying and selling also create social benefits because, more often than not, business transactions are taxed. Governments then use the tax dollars to fund important services, such as health care, education, and social assistance programs.

Tax dollars generated from business transactions are referred to as **sales taxes**. There are numerous regulations associated with sales taxes. These regulations specify which items are taxed, which items are not, what paper or electronic forms are necessary, and so on. As you might expect, the rules regarding sales taxes can change whenever the federal government or the provincial governments pass new laws.

Overall, taxation regulations can be complex. Businesses rely on accountants to solve these complexities and effectively manage their taxation issues. For the beginning accounting student, there is little need to examine sales tax in a detailed way because at its core, sales tax is simple. For most sales, four basic taxation principles will help you understand the accounting required.

1. Tax dollars are charged to the buyer of goods.
2. The tax dollars are collected by the seller and recorded in a separate liability account.
3. The tax dollars rightfully belong to the government.
4. The seller sends the tax dollars to the government at appointed times.

Retail Sales Tax (Provincial Sales Tax)

A **retail sales tax** is a tax charged to the final consumers of goods (and a relatively small number of services). The goods subject to Provincial Sales Tax are bought primarily at the retail level, which is where most individuals do their shopping. A business must also pay this tax if it is a final consumer of a good.

Retail Sales Tax (RST) in Canada is commonly called **Provincial Sales Tax (PST)** because it is a tax charged by some provincial governments. The tax is calculated as a percentage of the price of a good and is paid by the consumer. Now you will learn the essential accounting required by PST.

The Purchaser *(The Buyer)*

The purchaser of goods does no special accounting for PST. The tax simply increases the total cost of the goods purchased. If the purchaser is a business, follow your normal accounting practice. Record the total cost as a debit to an asset or expense, depending on what was purchased. For example, suppose a \$500 tablet computer was purchased in Winnipeg, Manitoba, where the current PST rate is 7%. The amount of the tax is \$35 ($\$500 \times 7\%$). As noted on page 197 in Principle 1, the tax is paid by the buyer. The accounting entry in the books of the buyer in T-account form is shown below.

Computer Equipment		Bank	
Dr	Cr	Dr	Cr
535.00			535.00

The Seller

Principles 2, 3, and 4 will lead you to the seller's correct accounting for PST. Principle 2 states tax dollars are collected or charged by the seller and recorded in a separate liability account. For the sale of the tablet computer in Winnipeg, the sale portion of the entry in the books of the seller would be as follows:

Bank		Sales		PST Payable	
Dr	Cr	Dr	Cr	Dr	Cr
535.00			500.00		35.00

The debit (and subsequent deposit) to Bank of \$535 proves that the seller has possession of the taxation funds—the \$35. A new PST Payable account verifies Principle 3, that is, the tax dollars rightfully belong to the government. This is why the tax dollars are recorded in a liability account.

To complete Principle 4, the seller must send the government the money it has collected or charged on sales—in this case, \$35. This is called a remittance. A **remittance** is a sum of money sent. For PST, all the tax charged in a month is remitted by the 15th day of the following month. The remittance of the \$35 PST charged on the computer tablet would look something like the following:

PST Payable		Bank	
Dr	Cr	Dr	Cr
	35.00		
35.00			35.00

Of course, the actual dollar amount of the remittance entry would be different than the above because it would include PST charged on many sales, not just one. It would also include PST charged on credit sales, even if the account receivable customers have not yet settled the amounts owing.

Value-Added Sales Taxes

You already know that a retail sales tax is only charged to the final consumer of a good. This is one feature that makes retail sales tax different from a value-added tax. A **value-added tax** is a tax charged to both goods and a wider variety of services as they pass through the different stages of production and delivery. Examples of value-added taxes are the Goods and Services Tax (GST) and the Harmonized Sales Tax (HST).

Typically, each business at a different production stage adds value to a product or service. The increased value is confirmed when a higher price is charged to the next business in the production chain. As value is added with each sale, governments receive tax dollars. To clarify the nature of a value-added tax, read the example in Figure 6.12.

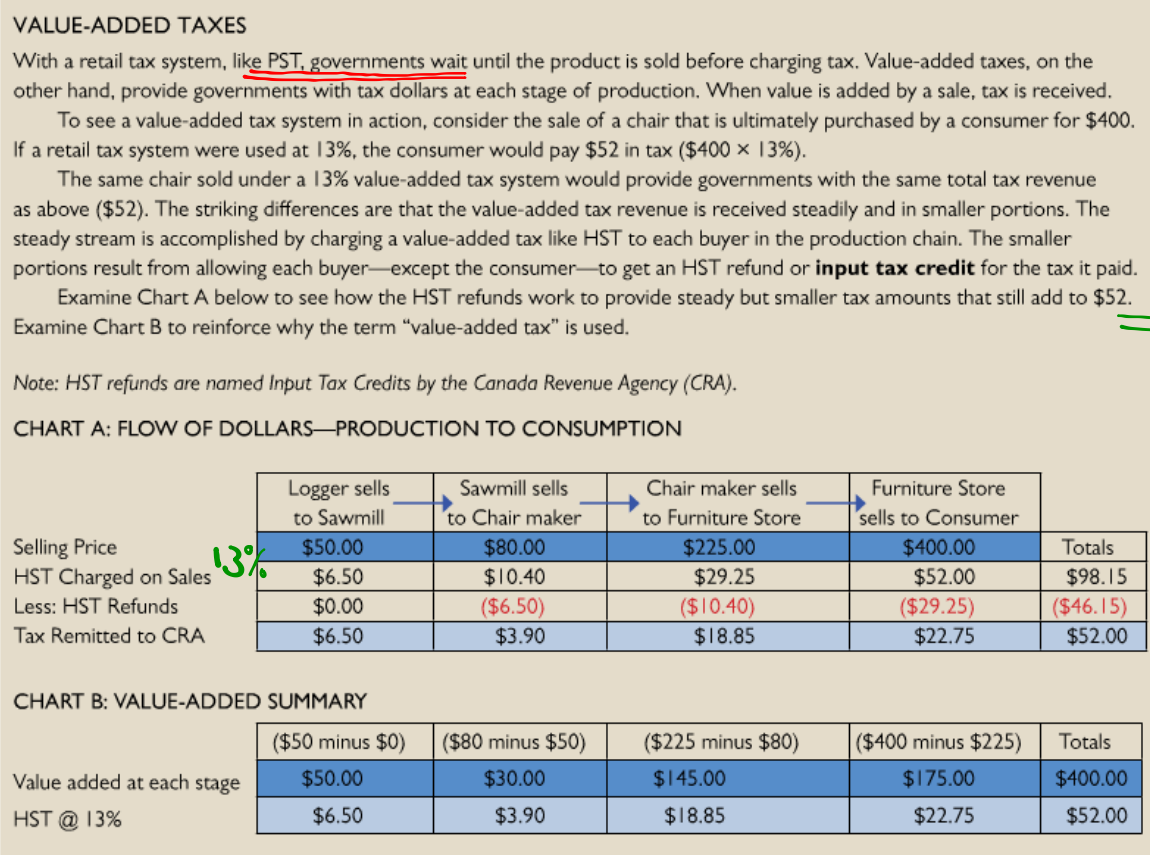


Figure 6.12
Example of a value-added tax in action

Accounting for Value-Added Taxes

The accounting procedures for Canada's two value-added taxes—the GST and HST—are essentially the same. The main difference is the rate charged. For example, in Manitoba, the GST is currently 5% because the PST (7%) is calculated separately. In contrast, the HST in Ontario is 13% because it includes the provincial portion of 8%. Despite the initial difference in appearances, a sale in either province provides a 5% value-added tax to the federal government.

When you learned the accounting for a retail sales tax system (e.g., PST), you were given four basic principles to help you. A value-added tax system (e.g., HST and GST) can use the same principles with two important exceptions. These are highlighted in colour on the next page. (Note: For simplicity, the following examples refer to HST but also apply to GST.)

1. Tax dollars are charged to the buyers of goods and services. If the buyer is a business, that business keeps track of the HST charged on its purchases in a separate account.

The first addition to Principle 1 is that HST is applied to a range of services, whereas PST is applied primarily to goods. The second change is that when the purchasing business pays HST, it has a strong incentive to record those amounts in a special account.

2. These tax dollars are collected by the seller and recorded in a separate account.
3. These tax dollars rightfully belong to the government.
4. The seller sends these tax dollars to the government at appointed times, less any HST it has paid on its purchases in the same time period.

Principle 4 reveals the strong incentive a business has to record the HST it pays. You already understand this incentive if you worked through the description of producing a chair, which is presented in the Value-Added Taxes insert on page 199. A business wants to keep track of all the HST it pays because it gets to deduct this amount from its HST tax liability. In essence, therefore, a business is refunded the HST it pays. Unlike the PST, HST does not increase the cost of a business's purchases by a stated percentage. The cost of the HST is ultimately paid by the final consumer who generally gets no refund.

As with the PST, we can use T-accounts to understand the accounting for the HST.

Selling Goods and Services with the HST

First, let us focus on the sales aspect of HST. Specifically, businesses charge and collect HST whenever a sale is made. They track the HST amounts in an account, keeping in mind that the dollars charged and collected belong to the government.

Assume the Brookwood Driving School sold lessons for cash totalling \$20 000 in the month of August. With an HST rate of 13%, the accounting entry would be

Bank		Lesson Revenue		HST Payable	
Dr	Cr	Dr	Cr	Dr	Cr
22 600			20 000		2 600

Buying Goods and Services with the HST

Staying with the same example, assume that the Brookwood Driving School is preparing to remit August's HST to the CRA. Before looking at the remittance entry, remember that businesses keep track of all the HST they pay. Suppose that the Brookwood Driving School had purchased \$5000 of various goods and services in August and paid \$650 in HST ($\$5000 \times 13\%$).

All Purchases in August		HST Payable		Bank or Accounts Payable	
Dr	Cr	Dr	Cr	Dr	Cr
5 000		650			5 650

Remitting the HST

The above entry in the HST Payable account shows the driving school kept track of the HST it was charged on the assets and expenses in August. Principle 4 states that the business is allowed to deduct the \$650 when making its HST remittance. This allowance is why the liability account, HST Payable, has been debited. As a result of the debit, the amount of the cheque that the Brookwood Driving School sends to the CRA on September 30 is reduced from \$2600 to \$1950, as shown below.

HST Payable		Bank	
Dr	Cr	Dr	Cr
	2 600		
650			
	1 950		
1 950			1 950
	0		

Summary of Typical Entries

Before you begin the exercises in Section 6.3, you need to be confident when making sales tax entries in the general journal. The summary of typical journal entries in Figure 6.14 (on the next page) will help you.

GENERAL JOURNAL			PAGE			
DATE	PARTICULARS	P.R.	DEBIT		CREDIT	
	A) A typical purchase on account with 13% HST					
	Supplies		4	50	–	
	HST Recoverable		5	850		
	Accounts Payable				5	0850
	B) A typical purchase for cash with 13% HST					
	Maintenance Expense		3	30	–	
	HST Recoverable		4	290		
	Bank				3	7290
	C) A typical sale on account with 13% HST					
	Accounts Receivable		1	017	–	
	Fees Earned				9	00
	HST Payable				1	17
	D) A typical sale for cash with 13% HST					
	Bank		5	650	–	
	Fees Earned				5	000
	HST Payable				6	50
	E) A typical sale on account with 5% GST and 7% PST					
	Accounts Receivable		8	960	–	
	Fees Earned				8	000
	GST Payable				4	00
	PST Payable				5	60
	(Note: In this example, both the PST and GST rates use \$8000 as the base amount.)					
	F) A typical HST Remittance					
	HST Payable		8	250	–	
	HST Recoverable				1	100
	Bank				7	150

Homework

SECTION 6.3 REVIEW QUESTIONS (page 205)

1. Governments tax business transactions to collect revenue to fund services like education, healthcare, and social assistance programs.
2. The four basic principles that help with the accounting for sales taxes are the following. One, tax dollars are charged to the buyer of goods. Two, these tax dollars are collected by the seller and recorded in a separate account. Three, these tax dollars rightfully belong to the government. Four, the seller sends these tax dollars to the government at appointed times.
3. Retail sales taxes are charged to the final buyer of goods (and some services).
4. The purchaser does no special accounting for retail sales tax. It is the seller's responsibility to account for the retail sales tax.
5. PST collected from customers is recorded in the PST Payable account, which is a liability account.
6. PST must be remitted to the government every month by the 15th day of the following month.
7. A business may be required to pay sales tax to the government before it has been collected from a customer if the company sells on credit. The customer might take a month or two to pay their bill but sales tax must be remitted on the 15th of the following month for all transactions, whether or not the customer has paid.
8. A value-added tax is a tax charged to both goods and services as they pass through the different stages of production and delivery.
9. The Canada Revenue Agency refers to HST refunds as input tax credits.
10. A business is required to register for the GST/HST if it has sales of taxable goods and services worth \$30 000 or more.
11. When a company registers for the GST/HST, it is assigned a special business number and is advised whether to report and remit the tax monthly, quarterly, or annually.
12. GST/HST is remitted monthly, quarterly, or annually depending on the type of business.
13. One difference between the GST and HST is that the GST rate is 5% and the HST rate is higher because it contains the federal and provincial portion of the tax. One similarity between the GST and HST is that both taxes result in a 5% value-added tax being sent to the federal government.
14. A business would want a separate account for the HST or GST it pays but not for the PST it pays because it can deduct HST or GST from the amount that it owes the federal government. PST cannot be deducted from the amount owed to the provincial government, so there is no point in recording it in a separate account.
15. A contra account is an account that has a balance that reduces or offsets the balance of a closely related account.
16. Some accountants prefer to use a contra account such as HST Recoverable to easily see the debits and credits related to a certain type of account (i.e., HST paid and HST collected). Quick access to this information is useful when filling in government forms.
17. This statement is correct since HST Recoverable normally has a debit balance, just as any asset has; and, just as any asset, HST Recoverable has a dollar value that can be claimed by the owner of the business. The account may appear in the asset section of the ledger, but is often found in the liability section in order to conveniently calculate the HST owed.
18. Clearing an account balance means to bring it to zero. You would want to clear balances in HST Recoverable and HST Payable when you are remitting your HST payment to the government.

Exercise 1, p. 205

A.

Date	Amount before PST (\$)	PST at 8% (\$)	Total Amount (\$)
Jan 6	75.00	6.00	81.00
Jan 7	120.00	9.60	129.60
Jan 8	58.60	4.69	63.29
Jan 9	98.00	7.84	105.84

B.

GENERAL JOURNAL

PAGE

DATE	PARTICULARS	PR.	DEBIT	CREDIT
<i>Jan.</i> 6	<i>Bank</i>		81 -	
	<i>Sales</i>			75 -
	<i>PST Payable</i>			6 -
	<i>Cash sale; cash sales slip No. 4923</i>			
7	<i>Bank</i>		129 60	
	<i>Sales</i>			120 -
	<i>PST Payable</i>			9 60
	<i>Cash sale; cash sales slip No. 4924</i>			
8	<i>Accounts Receivable</i>		63 29	
	<i>Sales</i>			58 60
	<i>PST Payable</i>			4 69
	<i>Sale on account; invoice No. 7828</i>			
9	<i>Accounts Receivable</i>		105 84	
	<i>Sales</i>			98 -
	<i>PST Payable</i>			7 84
	<i>Sale on account; invoice No. 7833</i>			

Exercise 2, p. 205

A.

DATE		PARTICULARS	DEBIT					CREDIT				
²⁰⁻ <i>Jul.</i>	<i>3</i>	<i>A/R—McCuaig Supply</i>	<i>1</i>	<i>2</i>	<i>4</i>	<i>9</i>	<i>76</i>					
		<i>Sales</i>						<i>1</i>	<i>1</i>	<i>6</i>	<i>8</i>	<i>-</i>
		<i>PST Payable</i>								<i>8</i>	<i>1</i>	<i>76</i>
		<i>Sales invoice No. 3267</i>										

B.

DATE		PARTICULARS	DEBIT					CREDIT				
²⁰⁻ <i>Jul.</i>	<i>3</i>	<i>J. McCuaig, Drawings</i>	<i>1</i>	<i>2</i>	<i>4</i>	<i>9</i>	<i>76</i>					
		<i>A/P—Falcon Lake Marina</i>						<i>1</i>	<i>2</i>	<i>4</i>	<i>9</i>	<i>76</i>
		<i>Invoice No. 3267; goods were for</i>										
		<i>owner's personal use.</i>										

Exercise 3, p. 206

GENERAL JOURNAL

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DATE	PARTICULARS	P.R.	DEBIT				CREDIT					
³⁰⁻ Nov. 15	Bank		1	3	6	7	30					
	<i>Fees Earned</i>							1	2	1	0	-
	<i>HST Payable</i>							1	5	7	30	
	<i>Sales tickets for the week—Nos. 160 to 169</i>											
17	<i>Property Taxes Expense</i>		1	5	0	0	-					
	<i>A/P—Municipality of Marmora</i>							1	5	0	0	-
	<i>Tax bill for July 1 to Dec. 31</i>											
18	<i>Maintenance and Repairs Expense</i>			8	7	4	80					
	<i>HST Recoverable</i>			1	1	3	72					
	<i>A/P—Highway Lumber</i>								9	8	8	52
	<i>Repairs of trailer sites; invoice No. 707</i>											
19	<i>Maintenance and Repairs Expense</i>			6	0	4	80					
	<i>HST Recoverable</i>				7	8	62					
	<i>A/P—Corcoran Sod Farm</i>								6	8	3	42
	<i>For trailer site repairs; invoice No. 292</i>											
20	<i>Telephone Expense</i>			1	1	2	92					
	<i>HST Recoverable</i>				1	4	68					
	<i>A/P—BowMac Telephone Co.</i>								1	2	7	60
	<i>Telephone expense for October;</i> <i>invoice No. 33542</i>											
22	Bank		1	6	0	4	60					
	<i>Fees Earned</i>							1	4	2	0	-
	<i>HST Payable</i>							1	8	4	60	
	<i>Sales tickets for the week—Nos. 170 to 184</i>											

Exercise 4, p. 207

A.

GENERAL JOURNAL

PAGE

DATE	PARTICULARS	PR.	DEBIT					CREDIT					
²⁰⁻ Oct. 19	<i>A/R—Booker Industries</i>		1	4	1	2	50						
	<i>Sales</i>							1	2	5	0	-	
	<i>GST Payable</i>									6	2	50	
	<i>PST Payable</i>									1	0	0	-
	<i>Sales invoice No. 459</i>												
19	<i>A/R—Genco Corporation</i>		1	6	9	5	-						
	<i>Sales</i>							1	5	0	0	-	
	<i>GST Payable</i>									7	5	-	
	<i>PST Payable</i>									1	2	0	-
	<i>Sales invoice No. 460</i>												
20	<i>A/R—Hall Industries</i>		3	0	5	1	-						
	<i>Sales</i>							2	7	0	0	-	
	<i>GST Payable</i>									1	3	5	-
	<i>PST Payable</i>									2	1	6	-
	<i>Sales invoice No. 461</i>												
22	<i>Telephone Expense</i>		3	1	3	20							
	<i>GST Recoverable</i>				1	5	66						
	<i>A/P—Bell Cellphones</i>									3	2	8	86
	<i>Invoice No. 49390</i>												
25	<i>Office Supplies Expense*</i>		8	9	2	30							
	<i>GST Recoverable</i>				4	1	31						
	<i>A/P—Great Stationers</i>									9	3	3	61
	<i>Invoice No. 15586</i>												
	<i>*The cost of office supplies</i>												
	<i>includes PST; the calculation is</i>												
	<i>826.20 × 1.08. GST is on the base</i>												
	<i>price: 826.20 × .05.</i>												

Exercise 4, p. 207 (continued)

B.

GENERAL JOURNAL

PAGE

DATE	PARTICULARS	P.R.	DEBIT				CREDIT				
²⁰⁻ Oct. 19	<i>A/R—Booker Industries</i>		1	4	1	2	50				
	<i>Sales</i>							1	2	5	0 -
	<i>HST Payable</i>							1	6	2	50
	<i>Sales invoice No. 459</i>										
19	<i>A/R—Genco Corporation</i>		1	6	9	5	-				
	<i>Sales</i>							1	5	0	0 -
	<i>HST Payable</i>							1	9	5	-
	<i>Sales invoice No. 460</i>										
20	<i>A/R—Hall Industries</i>		3	0	5	1	-				
	<i>Sales</i>							2	7	0	0 -
	<i>HST Payable</i>							3	5	1	-
	<i>Sales invoice No. 461</i>										
22	<i>Telephone Expense</i>		3	1	3	20					
	<i>HST Recoverable</i>						4	0	72		
	<i>A/P—Bell Cellphones</i>							3	5	3	92
	<i>Invoice No. 49390</i>										
25	<i>Office Supplies Expense</i>		8	2	6	20					
	<i>HST Recoverable</i>						1	0	7	41	
	<i>A/P—Great Stationers</i>							9	3	3	61
	<i>Invoice No. 15586</i>										

Exercise 4, p. 207 (continued)

- C. a. The accounts receivable and sales amounts are the same under both systems. The total tax paid is also the same under both systems. The only difference is that in the first system, the total tax owed is split between GST and PST.
-
- b. The amount owed to Bell Cellphones was smaller with the GST/PST system because PST was not charged on the service. PST is generally charged only on goods while HST is charged on a range of services as well as goods.
-
- c. The Office Supplies expense was smaller under the HST system because businesses recover the HST they pay. Under GST/PST, businesses have to absorb the cost of PST if they are the final consumer of the goods.
-