Calculation of Personal Financial Position

TOTAL VALUE OF ITEMS OWNED	–	**TOTAL OWED TO CREDITORS**	=	**PERSONAL NET WORTH**

The Accounting Equation

Assets = Equities

(things owned) (claims against the assets)

For example:

$39 000 = $39 000

Assets = Liabilities + Owner's Equity

(things owned) (claims against the assets)

$39 000 = $5 300 + ?

What is the owner's claim against the assets?

The Balance Sheet Title:
Who? What? When?

Who?

What?

When?

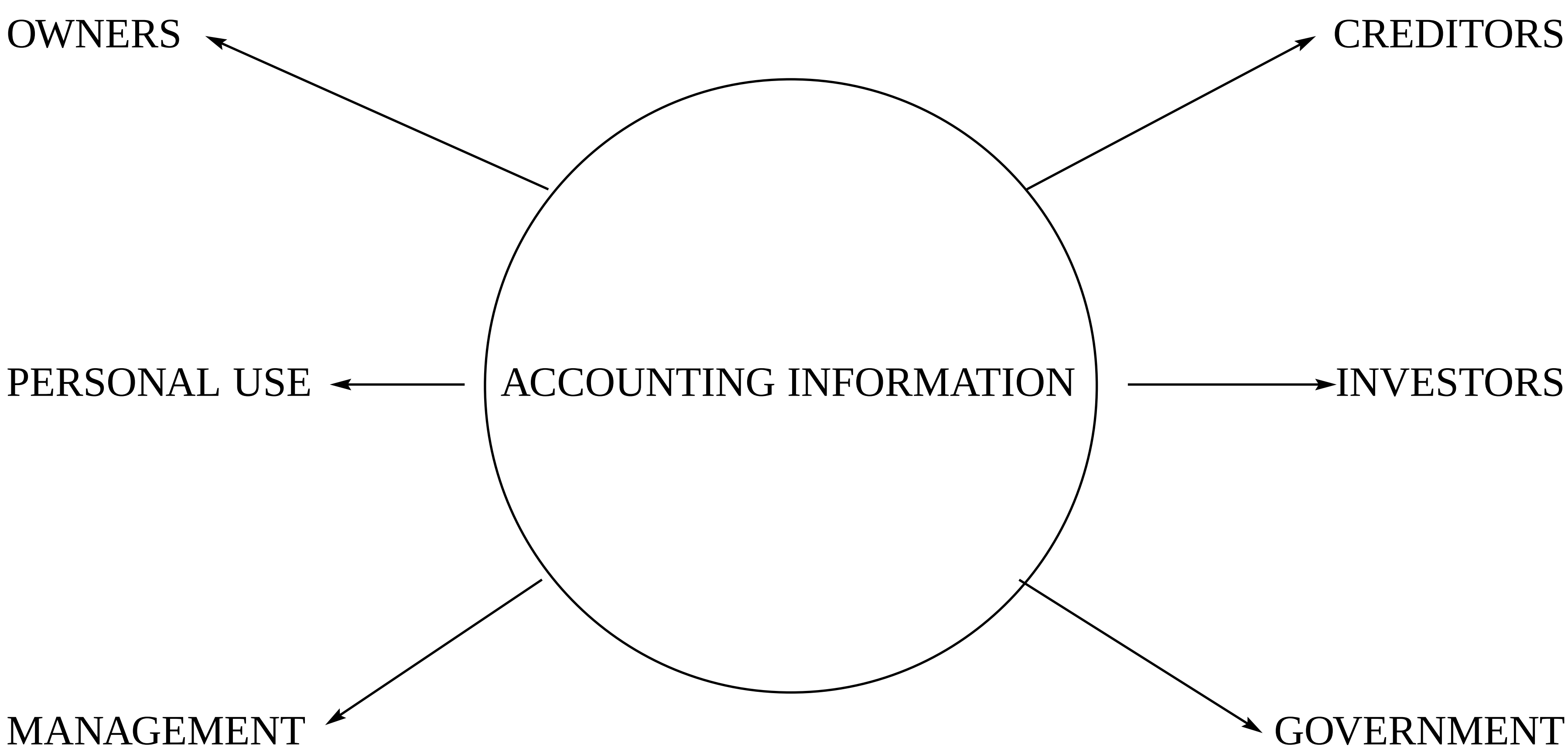
Assets	**Liabilities** + **Owner's Equity**

A = L + OE

The Accounting Equation: Applications

(a)	$ 15 000	=	$7 000	+	?
(b)	35 000	=	9 000	+	?
(c)	50 000	=	?	+	17 000
(d)	28 000	=	?	+	21 000
(e)	150 000	=	89 000	+	?
Remember!	A	=	L	+	OE

Accounting Information Is Used to Make Decisions



Transactions: A Definition

A transaction is an exchange of values.

Receive something of value.	⟷	Give something of value.
	A Transaction	

For example:

equipment worth \$25 000	⟷	\$25 000 cash

Generally Accepted Accounting Principles: GAAP—What Are They?

STANDARD RULES

AND GUIDELINES

FOR

ACCOUNTING

T-Account: Debit Side and Credit Side

TITLE

LEFT SIDE	RIGHT SIDE
DEBIT	CREDIT

The Balance Sheet and T-Accounts

Balance Sheet

Left Side **Assets**	Right Side **Liabilities** **+** **Owner's Equity**
Assets originate on the left side of the balance sheet.	Liabilities and Owner's Equity originate on the right side of the balance sheet.
Asset account balances are recorded on the debit side.	Liability and Owner's Equity account balances are recorded on the credit side.

Asset Accounts

Debit	**Credit**
DEBIT BALANCE	

Liability and Owner's Equity Accounts

Debit	**Credit**
	CREDIT BALANCE

Debit and Credit Theory: Assets

ASSETS		= LIABILITIES + OWNER'S EQUITY
Debit INCREASE	Credit DECREASE	

- Assets originate on the **LEFT SIDE** of the balance sheet.
- Asset balances are recorded on the **DEBIT SIDE**.
- Assets **INCREASE** on the **DEBIT SIDE**.
- Assets **DECREASE** on the **CREDIT SIDE**.

Debit and Credit Theory: Liabilities

ASSETS		=	LIABILITIES		+	OWNER'S EQUITY
Debit	Credit		Debit DECREASE	Credit INCREASE		

- Liabilities originate on the **RIGHT SIDE** of the balance sheet.
- Liability balances are recorded on the **CREDIT SIDE**.
- Liabilities **INCREASE** on the **CREDIT SIDE**.
- Liabilities **DECREASE** on the **DEBIT SIDE**.

Debit and Credit Theory: Owner’s Equity

ASSETS		=	LIABILITIES		+	OWNER’S EQUITY	
Debit	Credit		Debit	Credit		Debit DECREASE	Credit INCREASE

- Owner’s Equity originates on the **RIGHT SIDE** of the balance sheet.
- Owner’s Equity balance is recorded on the **CREDIT SIDE**.
- Owner’s Equity **INCREASES** on the **CREDIT SIDE**.
- Owner’s Equity **DECREASES** on the **DEBIT SIDE**.

Calculation of T-Account Balance

Cash

Aug. 1	6 000	Aug. 2	2 400
4	1 800	8	1 600
7	900		4 000
	8 700		
Balance	4 700		

Calculate debit total.

Calculate credit total.

Calculate the difference between the debit and the credit total and enter this balance on the larger side of the account.

The Income Statement Format

Who?
What?
When?

Revenue

Minus

Expenses

Equals

Net Income or (Net Loss)

The Income Statement: Determining Net Income (Net Loss)

	Revenue	–	Expenses	=	Net Income (Net Loss)
(a)	$200 000	–	$130 000	=	______________
(b)	28 200	–	22 200	=	______________
(c)	69 000	–	73 000	=	______________
(d)	18 500	–	13 700	=	______________
(e)	42 000	–	49 000	=	______________

- When **REVENUE** is greater than expenses there is a **NET INCOME**.
- When **EXPENSES** are greater than revenue there is a **NET LOSS**.

The Owner's Drawings Accounts: What Is It?

A. Trieu, Capital 300

DR.	CR.
Decrease	Increase
(c) Withdrawals	(a) Owner's Investment
(d) Losses	(b) Profits

A. Trieu, Drawings 301

DR.	CR.
(e) Withdrawals	
(f) Salary	
(g) Personal payments	

- The owner's Drawings account is a record of all withdrawals of assets by the owner.

Calculating the New Capital: Net Income and Drawings, Drawings Smaller than Net Income

Owner's Equity			
A. Trieu, Capital July 1		$33 000	
Add: Net Income for July	$9 000		
Less: A. Trieu, Drawings	1 500		
Increase in Capital		7 500	
A. Trieu, Capital July 31			$?

Owner's Equity			
A. Trieu, Capital August 1		$40 500	
Add: Net Income for August	$11 500		
Less: A. Trieu, Drawings	2 100		
Increase in Capital		?	
A. Trieu, Capital August 31			$?

- Net Income **INCREASES** Capital.
- Drawings **DECREASE** Capital.

Calculating the New Capital: Net Loss and Drawings, Drawings Larger than Net Income

Owner's Equity			
A. Trieu, Capital September 1		$49 900	
Add: Net Income for September	$9 800		
Less: A. Trieu, Drawings	1 800		
Increase in Capital		?	
A. Trieu, Capital September 30			$?

Owner's Equity			
A. Trieu, Capital October 1		$57 900	
Less: Net Loss for October	$ 950		
Less: A. Trieu, Drawings	1 600		
Decrease in Capital		?	
A. Trieu, Capital October 31			$?

- Net Loss **DECREASES** Capital.

The General Ledger

GENERAL LEDGER

Cash	Accounts Receivable	Supplies	**Assets**	**Balance Sheet**
Land	Building	Equipment		
Accounts Payable	Bank Loan	Mortgage Payable	**Liabilities**	
Owner, Capital	Owner, Drawings		**Owner's Equity**	
Sales Revenue	Fees Earned		**Revenue**	**Income Statement**
Rent Expense	Salaries Expense	Advertising Expense	**Expenses**	
Delivery Expense	Hydro Expense	Miscellaneous Expense		

Revenue and Expense Accounts Determine Net Income or Loss

Revenue and Expense Accounts
are used to determine
Net Income or Loss

Net Income or Loss

affects
the

Owner's Capital Account

DR.	CR.
Decrease	Increase
Loss	Net Income

Income Statement Accounts

Debits and credits for income statement accounts are determined by how they affect owner's equity.

Owner's Equity

Debit	Credit
Decrease Expenses decrease owner's equity.	Increase Revenue increases owner's equity.

Expenses

Debit	Credit
Expenses *increase* on the debit side.	Decrease

Revenue

Debit	Credit
Decrease	Revenue *increases* on the credit side.

Summary of Debit and Credit Theory

Balance Sheet Accounts

A	=	L	+	OE

Asset Accounts

Debit Increase +	Credit Decrease –

Liability Accounts

Debit Decrease –	Credit Increase +

Owner's Equity Account

Debit Decrease –	Credit Increase +

Income Statement Accounts

Owner's Equity Account

Debit Decrease –	Credit Increase +

Expense Accounts

Debit Increase +	Credit Decrease –

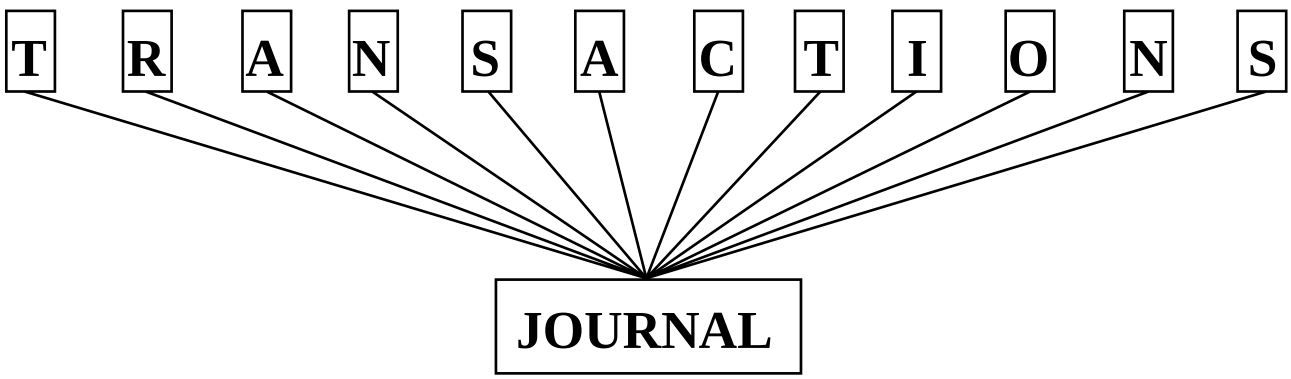
Revenue Accounts

Debit Decrease –	Credit Increase +

Transaction Analysis: Asking the Right Questions

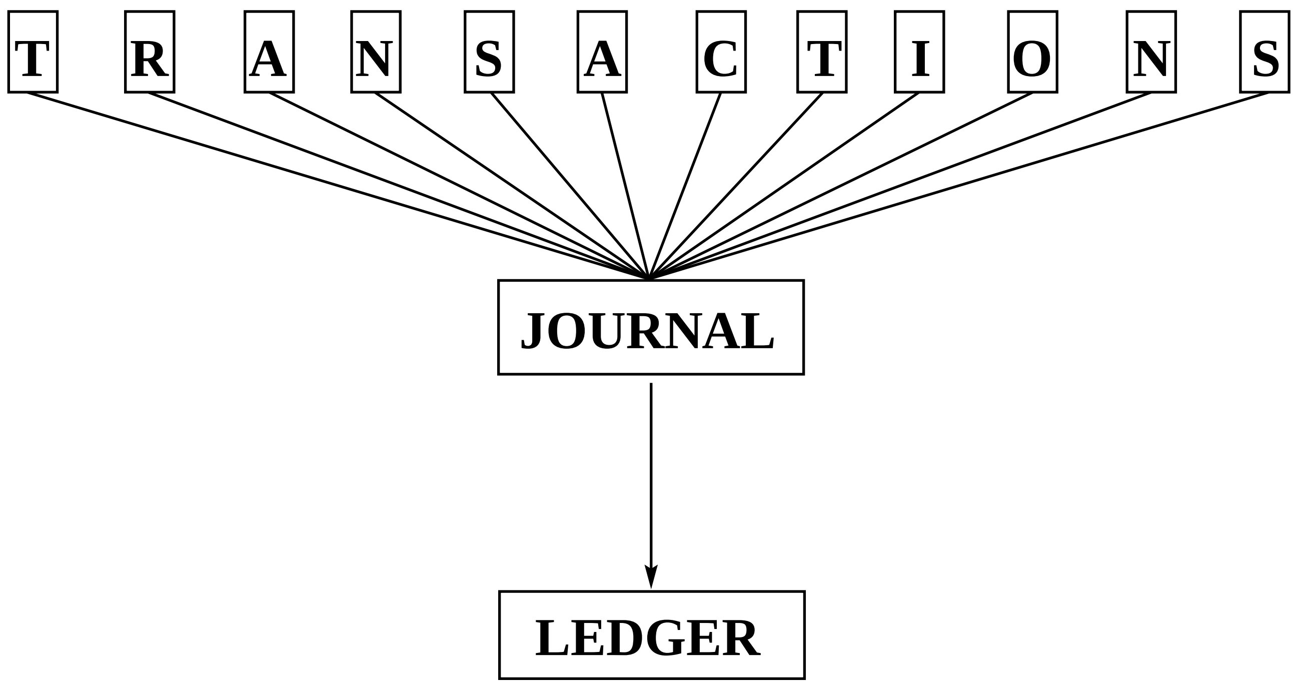
1. What accounts were affected?
2. Were the accounts A, L, OE, R, or E accounts?
3. Did the accounts increase or decrease?
4. Were the accounts debited or credited?

The Journal: Where Transactions Are First Recorded



- Transactions are first recorded chronologically in the journal.
- The journal contains a complete record of each transaction: date, debit, credit, amount, and explanation.
- Journals may be completed manually in a book or, using a computer, in a computer file.

Posting to the Ledger



- The **LEDGER** is a group of accounts.
- Each **ACCOUNT** shows a complete, up-to-date record of all transactions affecting **ONLY** that particular account.
- The ledger may be a manually prepared paper record or a set of files in a computer system.
- **POSTING** is the process of transferring information to the ledger **FROM** the journal.

Balance-column Form of Ledger Account

Cash

Mar.	1	2 200	Mar.	4	150
	3	75		7	275
	6	400			425
		2 675			
Balance		2 250			

ACCOUNT Cash NO. 100

DATE		PARTICULARS	POST. REF.	DEBIT	CREDIT	DR. CR.	BALANCE
20__							
Mar.	1		J1	2 000 00		DR.	2 000 00
	3		J1	75 00		DR.	2 075 00
	4		J1		150 00	DR.	1 925 00
	6		J2	400 00		DR.	2 025 00
	7		J3		1 275 00	DR.	2 250 00

- The balance-column form of account provides a balance after each transaction.
- The DR./CR. column indicates whether the balance is a debit or a credit balance.
- There is less chance of error in the balance-column form of account than in a T-account.

Determining Account Balances

Cash

May	1	2 500	May	3	1 400
	4	300		9	730
	6	1 630			

ACCOUNT Cash NO. 100

DATE		PARTICULARS	POST. REF.	DEBIT	CREDIT	DR. CR.	BALANCE
20__							
May	1			2 500 00			
	3				1 400 00		
	4			300 00			
	6			1 630 00			
	7				730 00		

ACCOUNT Bank Loan NO. 230

DATE		PARTICULARS	POST. REF.	DEBIT	CREDIT	DR. CR.	BALANCE
20__							
May	1				4 000 00	CR.	4 000 00
	31			700 00			
June	30			700 00			

ACCOUNT A. Singh, Capital NO. 300

DATE		PARTICULARS	POST. REF.	DEBIT	CREDIT	DR. CR.	BALANCE
20__							
May	1				25 000 00		
	31				2 000 00		
June	30			2 400 00			

Posting to the Ledger

General Journal PAGE 3

DATE		PARTICULARS	POST REF.	DEBIT	CREDIT
20__					
June	1	Cash		524 00	
		Sales Revenue			524 00
		Sold to R. Moffat for cash.			
	3	Office Supplies		75 00	
		Cash			75 00
		Bought miscellaneous supplies for cash.			

General Ledger

ACCOUNT Cash NO. 100

DATE		PARTICULARS	POST. REF.	DEBIT	CREDIT	DR. CR.	BALANCE

How to Locate Trial Balance Errors— We All Make Mistakes!

Debit	Credit
2 000	
1 500	
630	
720	1 835
	3 015
4 850	4 750

1. Difference: $100
   Addition or subtraction error

Debit	Credit
270	
135	
65	
	195
	85
	215
	25
470	520

2. Difference: $50
   Divided by 2 = $25
   Locate this figure ($25) — wrong side of trial

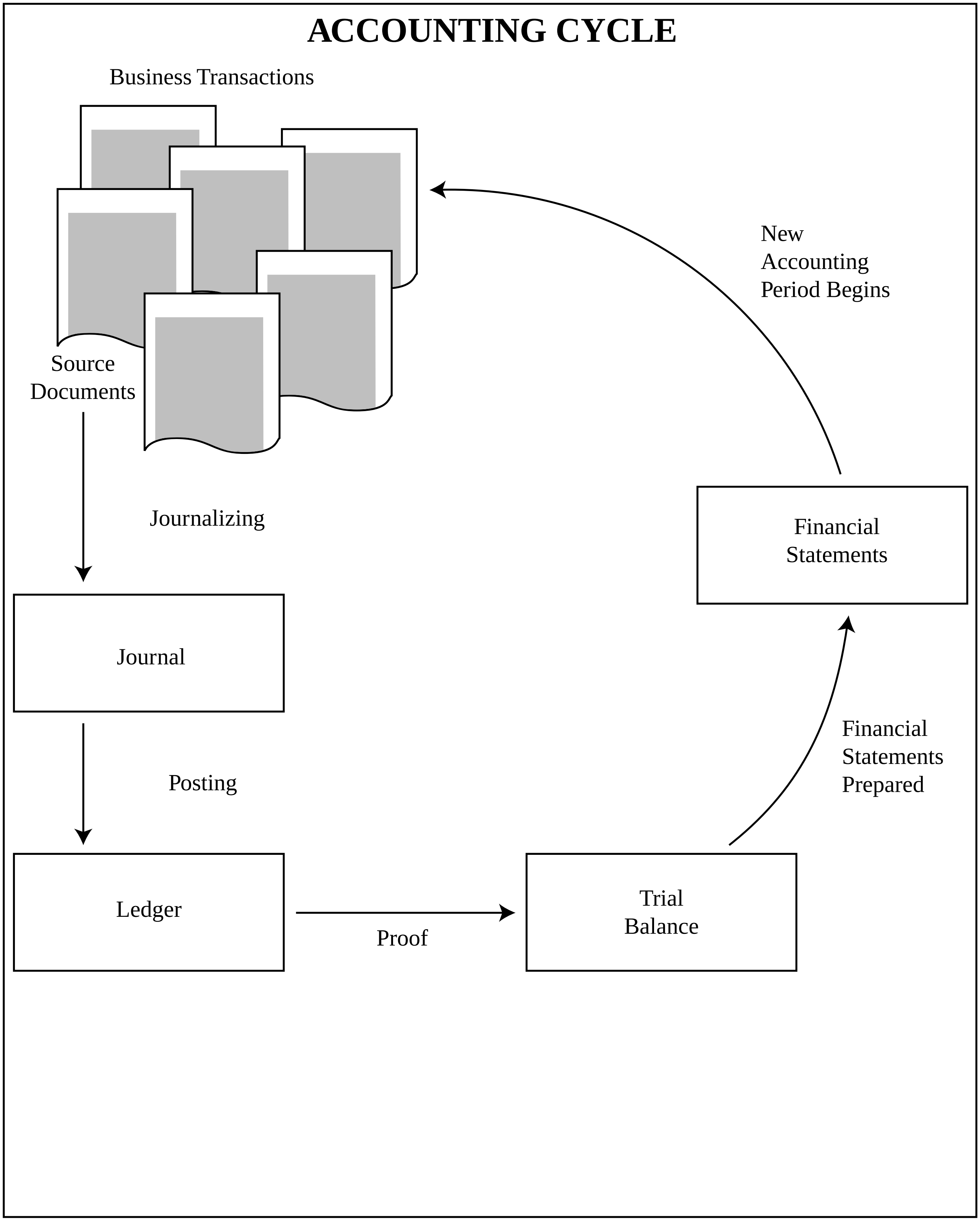
Debit	Credit
270	
135	
65	
	195
	85
	215
470	495

3. Difference: $25
   Is there a $25 account missing?

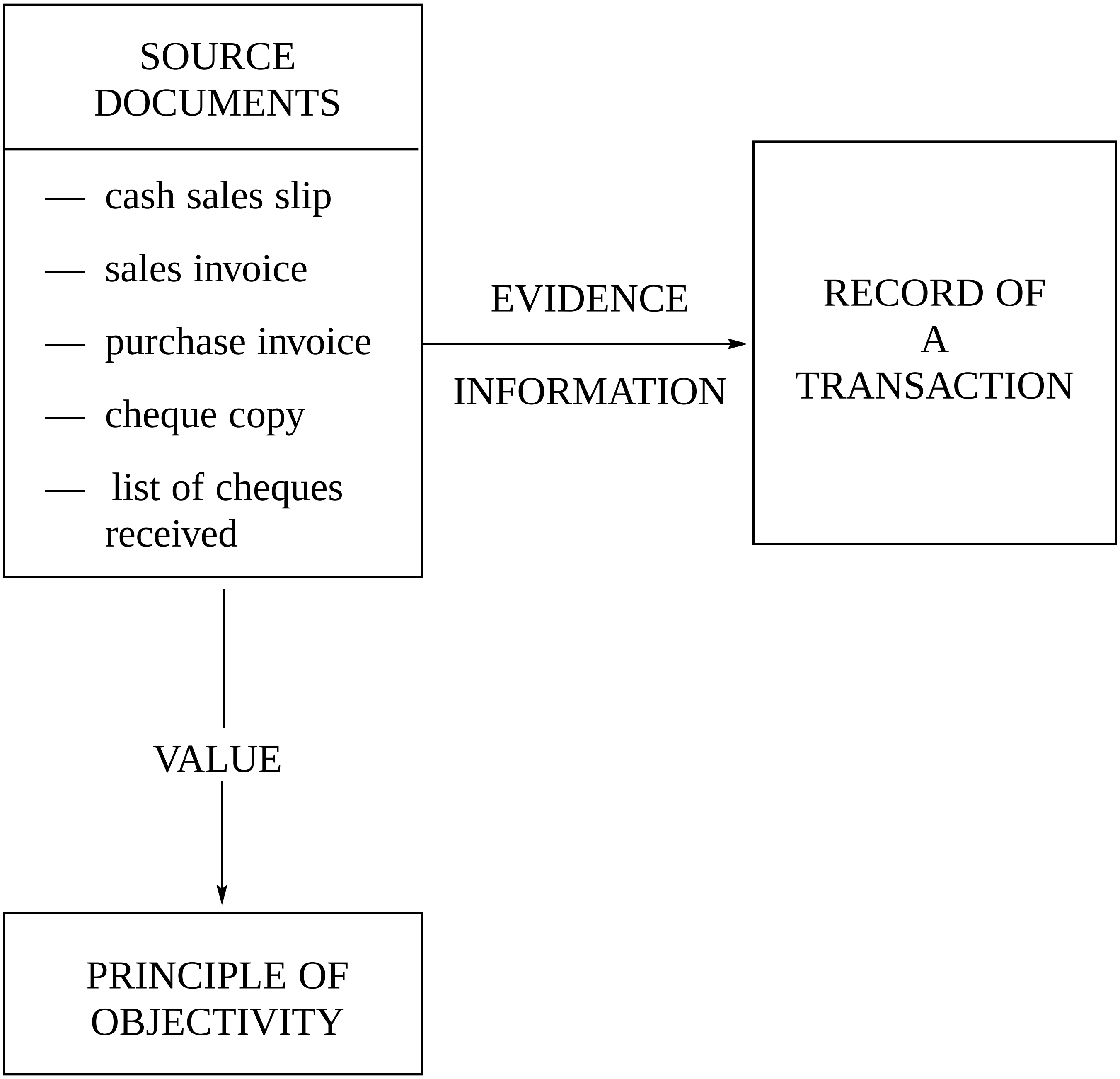
Debit	Credit
2 370	
1 630	
720	
410	
	2 540
	1 170
	1 690
5 130	5 400

4. Difference: $270
   Is the difference evenly divisible by 9?
   If so, look for a transposition error.

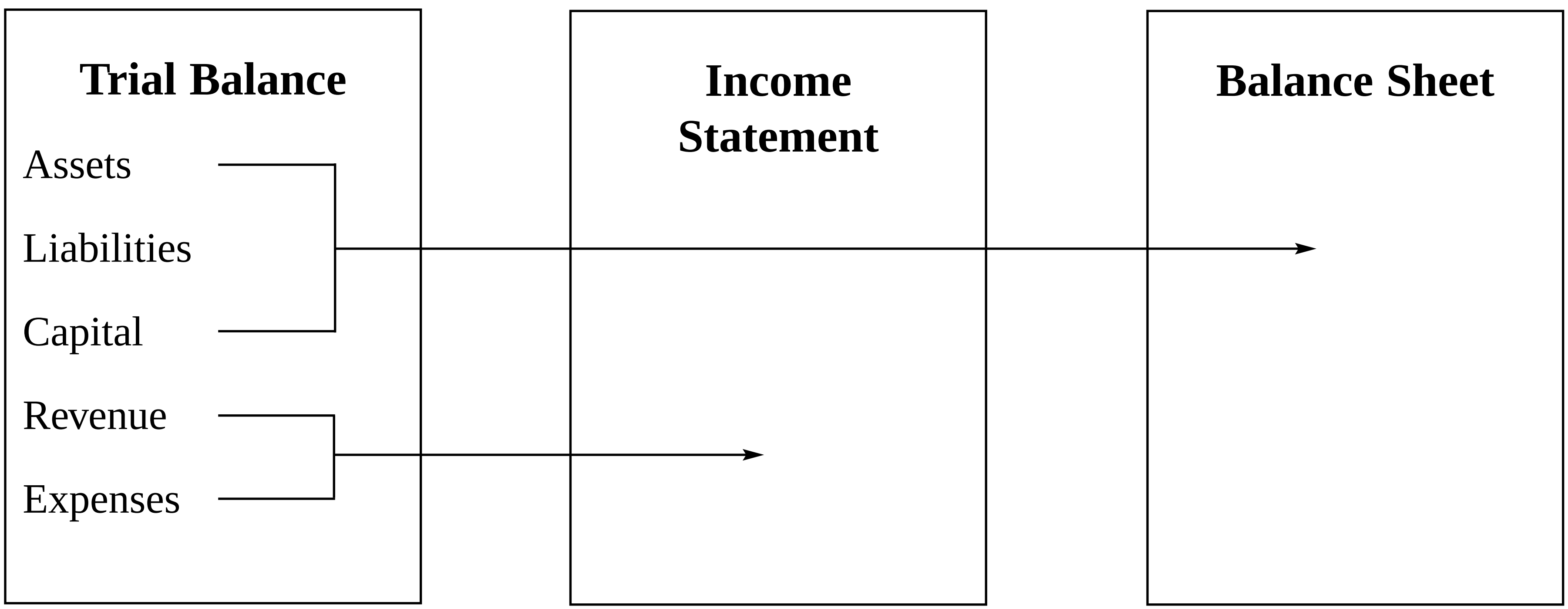
Introducing the Accounting Cycle



Source Documents and the Principle of Objectivity



Preparing Financial Statements

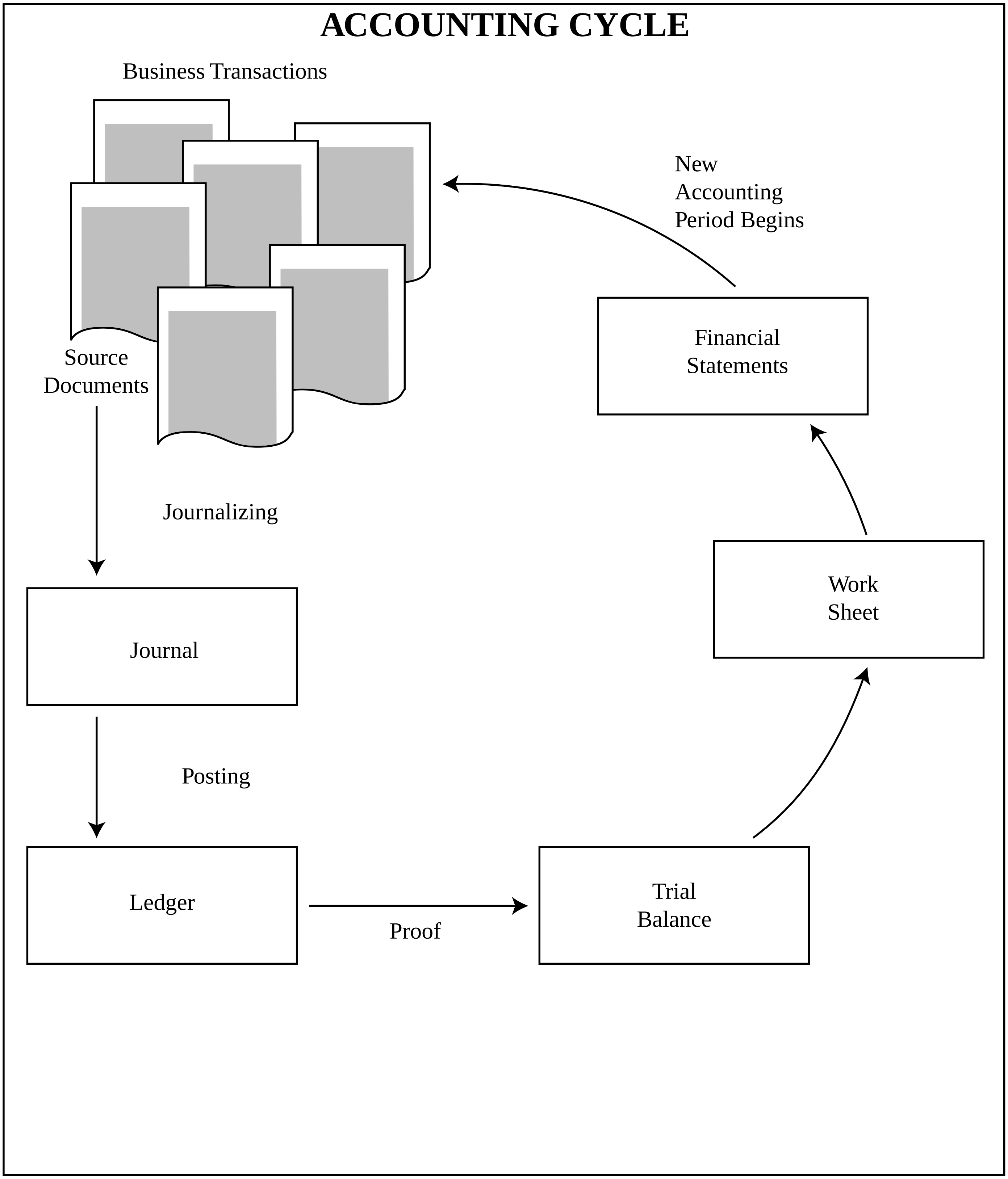


The Six-Column Work Sheet

ACCOUNT TITLES	ACCT. NO.	TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET	
		DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Assets		X X X –				X X X –	
		X X X –				X X X –	
		X X X –				X X X –	
Liabilities			X X X –				X X X –
			X X X –				X X X –
			X X X –				X X X –
Owner's Equity—Capital			X X X –				X X X –
—Drawings		X X X –				X X X –	
Revenue			X X X –		X X X –		
			X X X –		X X X –		
Expenses		X X X –		X X X –			
		X X X –		X X X –			
		X X X –		X X X –			

- The work sheet: A device that organizes information that is used to prepare the financial statements.

The Work Sheet Added to the Accounting Cycle



Steps in the Manual Accounting System

SOURCE DOCUMENTS

JOURNAL

LEDGER

TRIAL BALANCE

FINANCIAL STATEMENTS

Adjusting Entries

What are they?
- a series of journal entries

When are they recorded?
- at the end of the accounting period

Why are they prepared?
- to ensure that the account balances and the financial statements are correct for the period

How do they differ from other journal entries?
- cash is never affected with an adjusting entry
- an income statement account and a balance sheet account are affected by each adjustment

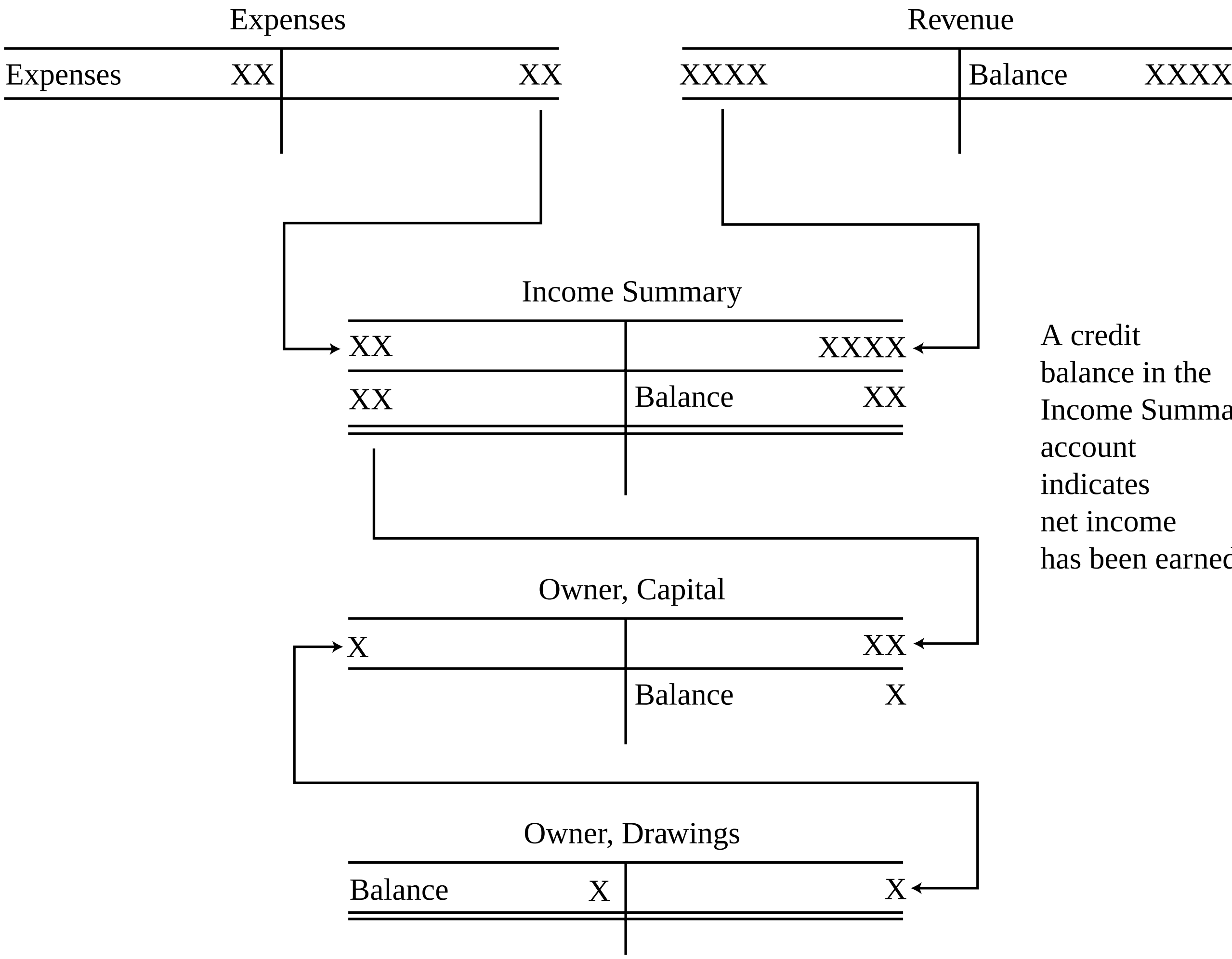
Types of Adjusting Entries:
- Prepaid Expenses

Supplies Expense	xxx	
Supplies		xxx
To record supplies used during the period.		

- Amortization

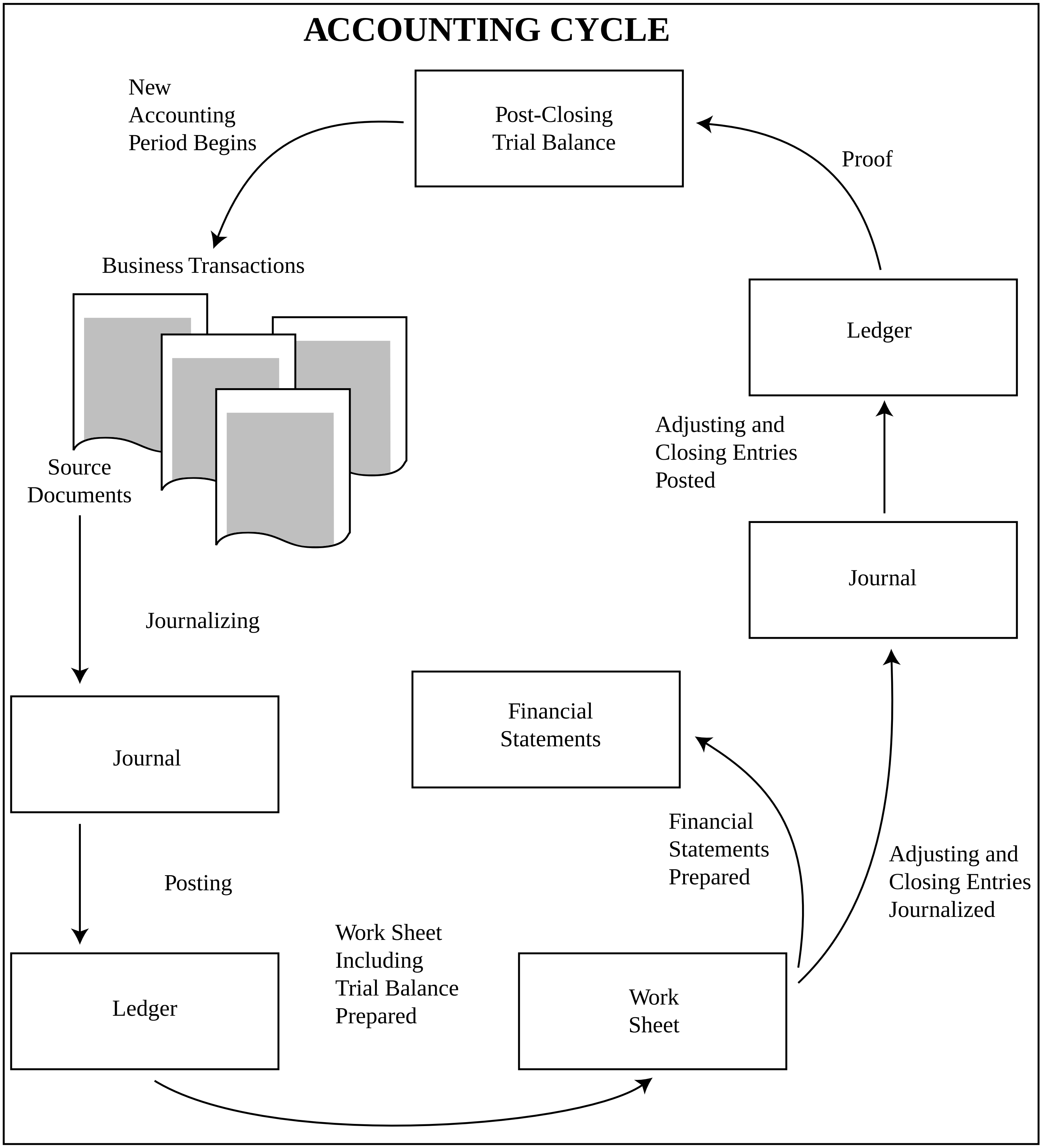
Amortization Expense	xxx	
Accumulated Amortization		xxx
To record amortization for the period.		

Closing the Books



A credit balance in the Income Summary account indicates net income has been earned.

Adjusting and Closing Entries Added to the Accounting Cycle



The Basic Schedule of Cost of Goods Sold

Warrendon Sports
Schedule of Cost of Goods Sold
For the month ended May 31, 20—

Merchandise Inventory, May 1	$16 000	
Add: Purchases	36 000	
Total Cost of Merchandise	52 000	
Less: Merchandise Inventory, May 31	18 000	
Cost of Goods Sold		$34 000

- The schedule of cost of goods sold is prepared before the income statement.

Income Statement for a Merchandising Company

Warrendon Sports
Income Statement
For the month ending May 31, 20—

Revenue		
Sales		$56 000
Cost of Goods Sold		
Cost of Goods Sold (per schedule)		34 000
Gross Profit		22 000
Operating Expenses		
Advertising Expense	$2 400	
Delivery Expense	700	
Office Expense	400	
Miscellaneous Expense	500	
Rent Expense	2 600	
Salaries Expense	5 400	
Utilities Expense	600	
Total Expenses		12 600
Net Income		$9 400

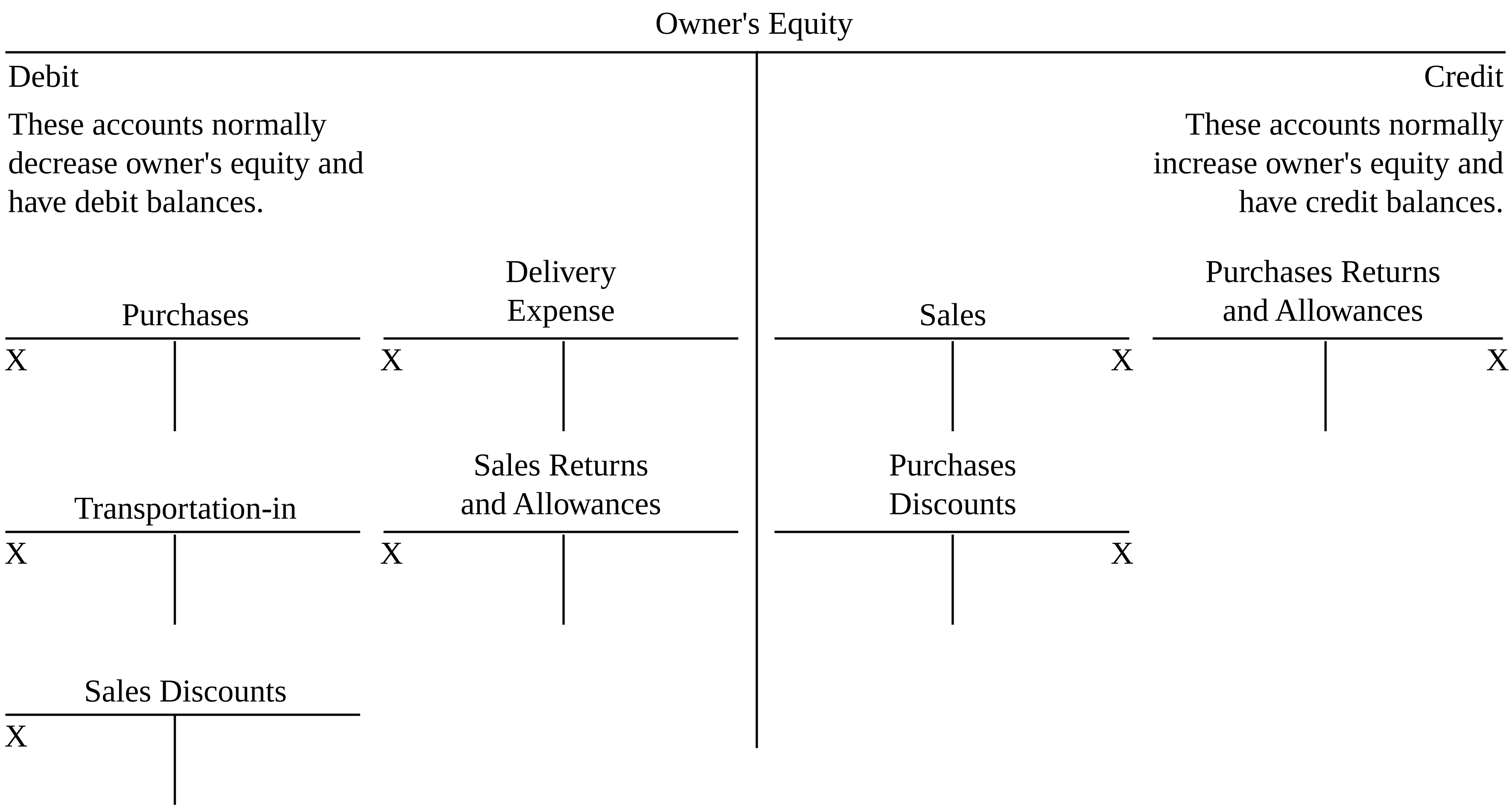
- There are **THREE** sections.
- The Cost of Goods Sold ($34 000) is obtained from the Schedule of Cost of Goods Sold.

Expanded Schedule of Cost of Goods Sold

Warrendon Sports
Schedule of Cost of Goods Sold
For the month ended June 30, 20—

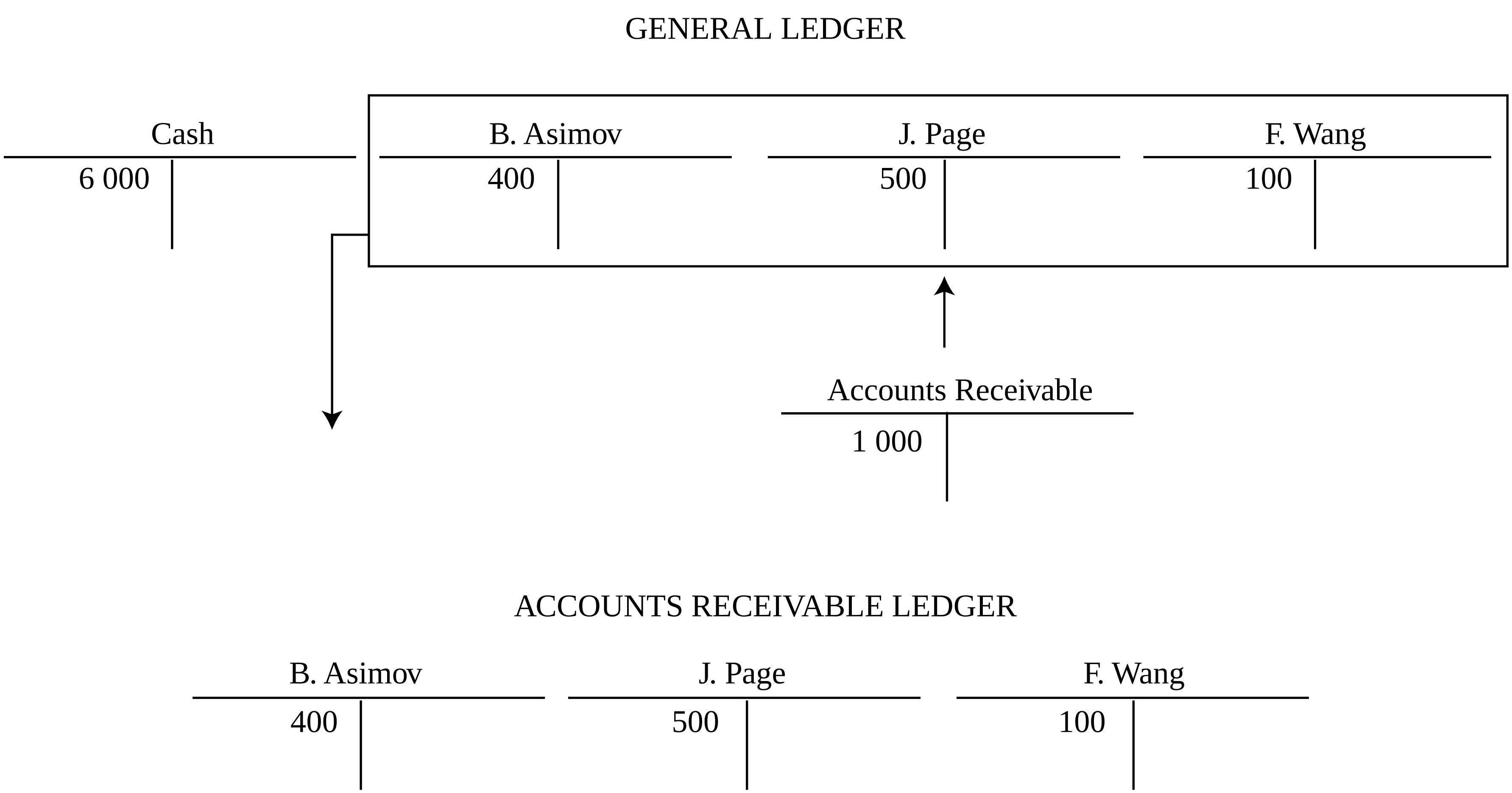
Merchandise Inventory, June 1			$18 000	
Add: Purchases		$42 400		
Less: Purchases Returns and Allowances	$8 000			
Purchases Discounts	400	8 400		
Net Purchase Cost		34 000		
Add: Transportation-in		2 000		
Total Cost of Merchandise Purchased			36 000	
Cost of Merchandise Available for Sale			54 000	
Less: Merchandise Inventory, June 30			20 000	
Cost of Goods Sold				$34 000

Summary of Debits and Credits for Merchandising Accounts



- Rules of debit and credit for merchandising accounts are determined by how owner's equity is affected.

Creating an Accounts Receivable Ledger



Creating an Accounts Payable Ledger

GENERAL LEDGER

Accounts Payable	
	400

B. Brandt	
	200

B. Galea	
	50

B. Lailey	
	150

Bank Loan	
	5 000

Mortgage Payable	
	50 000

J. Hagadorn, Capital	
	34 998

J. Hagadorn, Drawings	
500	

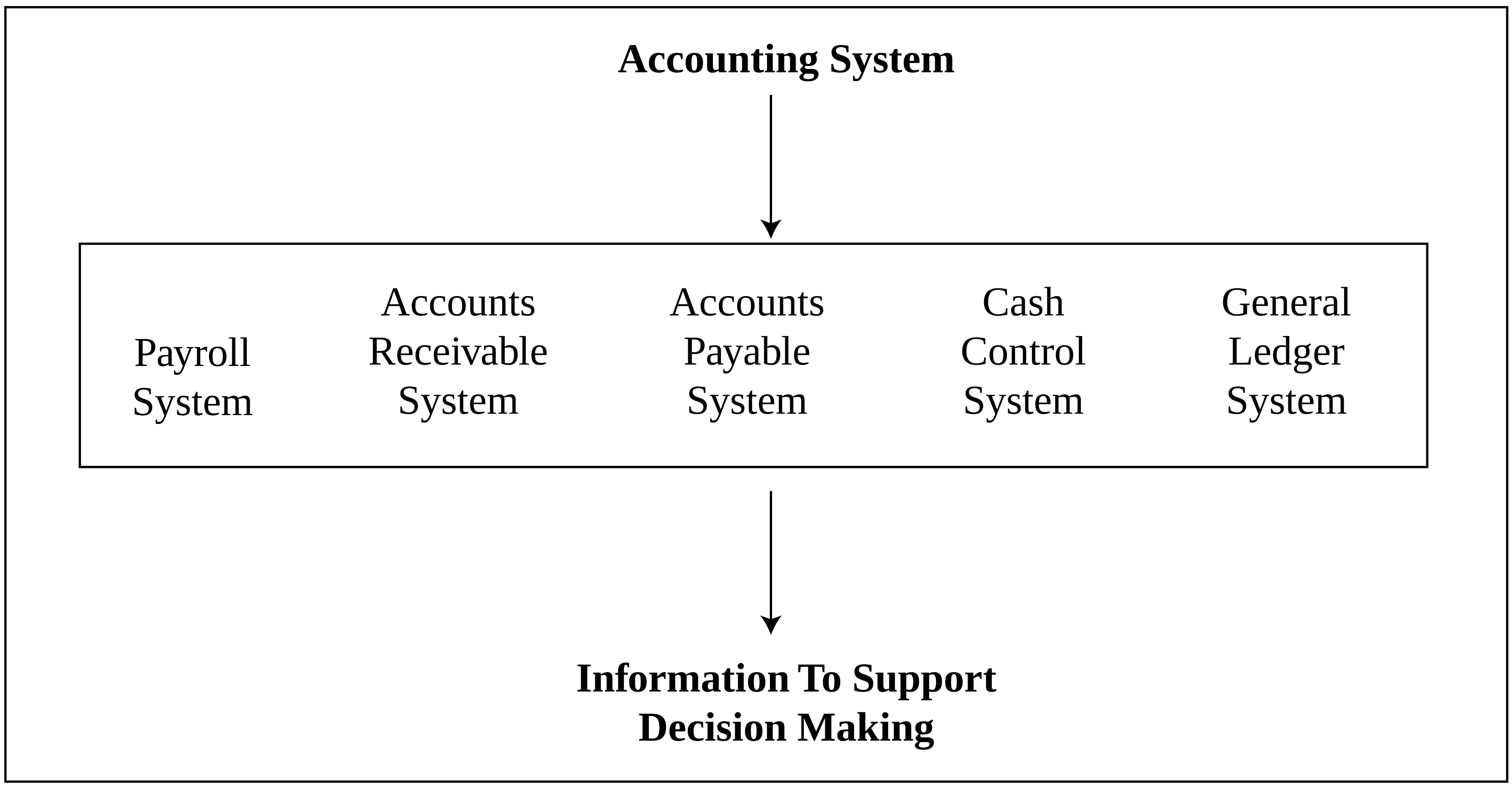
ACCOUNTS PAYABLE LEDGER

B. Brandt	
	200

B. Galea	
	50

B. Lailey	
	150

Accounting:
Information for Decision Makers



Control Account Balances Must Equal the Total of the Subsidiary Ledgers

Fraser Enterprises
General Ledger Trial Balance
February 28, 20—

Cash	$ 2 000	
Accounts Receivable	3 500	
Supplies	500	
Building	60 000	
Equipment	3 000	
Accounts Payable		$ 2 000
Bank Loan		20 000
D. Fraser, Capital		47 000
	$69 000	$69 000

Fraser Enterprises
Schedule of Accounts Receivable
February 28, 20—

C. Bard	$ 1 000
D. Meyer	700
T. Roesler	800
W. Turko	1 000
	$ 3 500

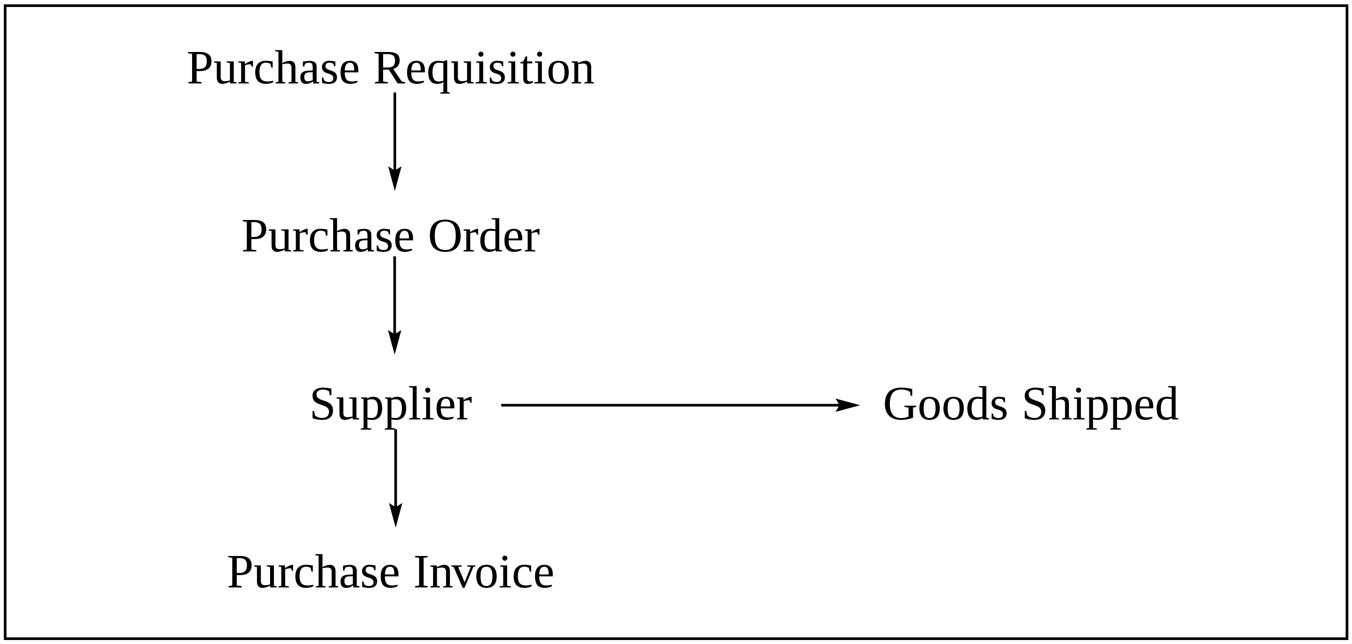
Fraser Enterprises
Schedule of Accounts Payable
February 28, 20—

Acme Ltd.	$ 200
Evans Co.	900
Falco Ltd.	400
Mentor Ltd.	500
	$ 2 000

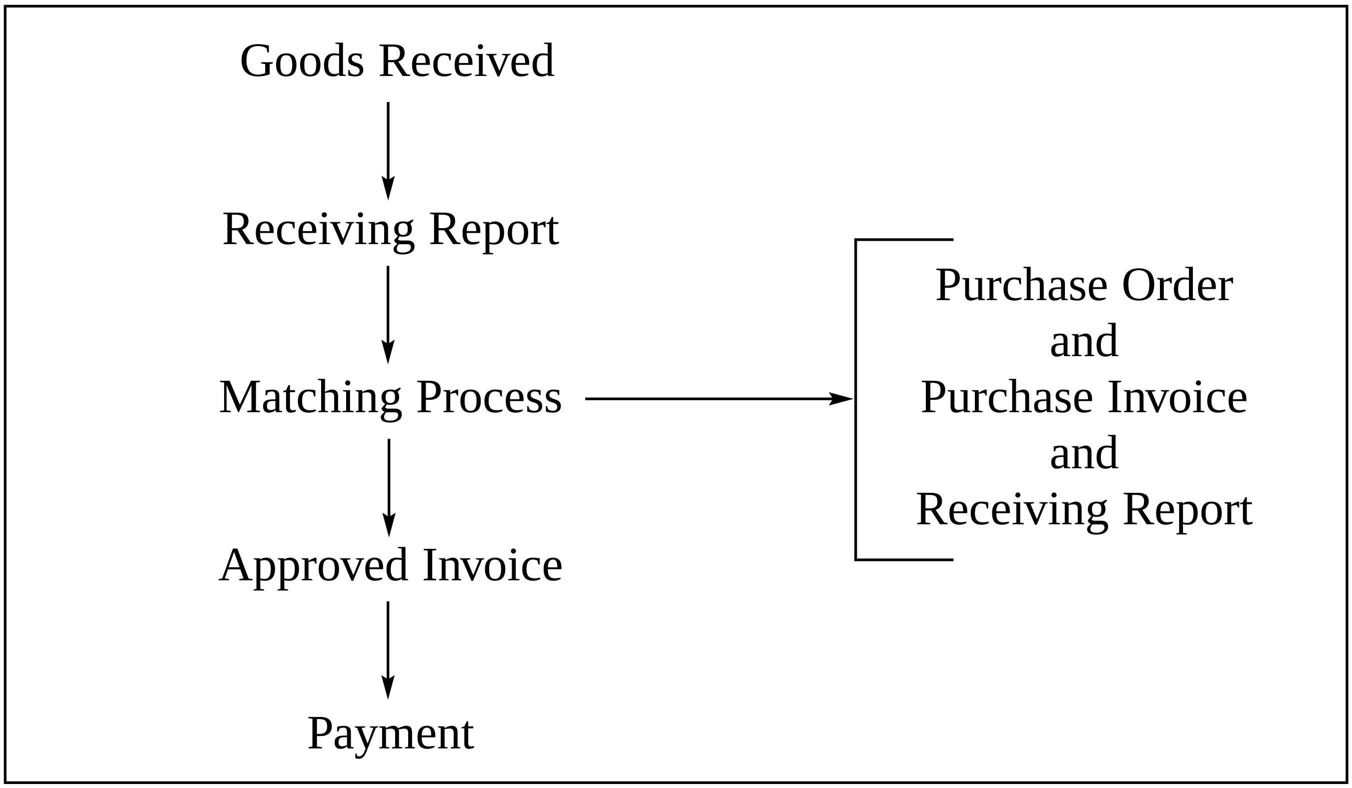
The Special Journal System

Source Document	Type of Transaction	Journal
Cash Sales Slips Cash Receipts Bank Credit Notes	All Cash Received →	Cash Receipts Journal
Sales Invoices Credit Invoices Issued	Sales on Account →	Sales Journal
Purchase Invoices Credit Invoices Received	Purchases on Account →	Purchases Journal
Cheque Copies Bank Debit Notes	All Payments →	Cash Payments Journal

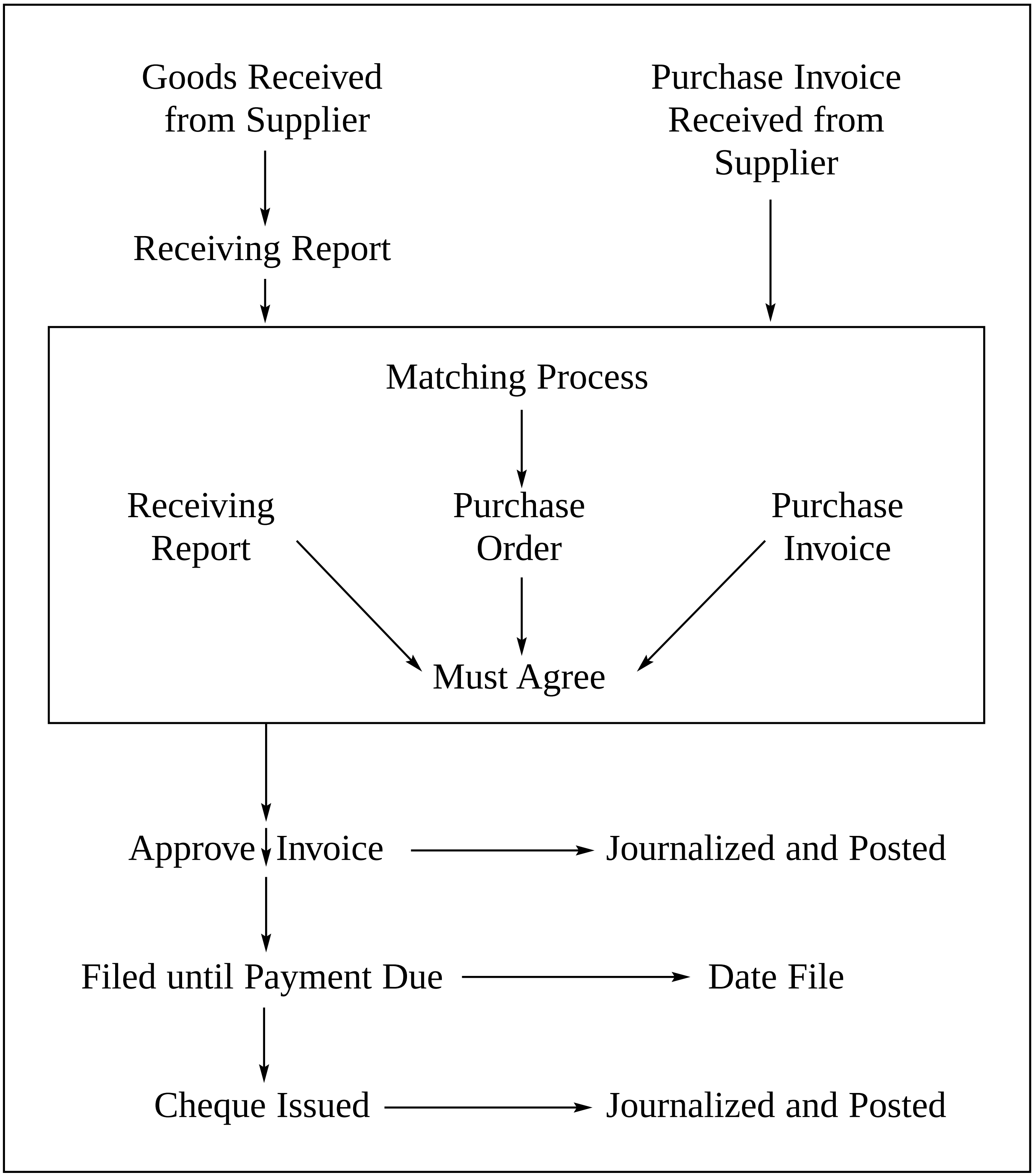
The Purchasing System: Ordering Goods



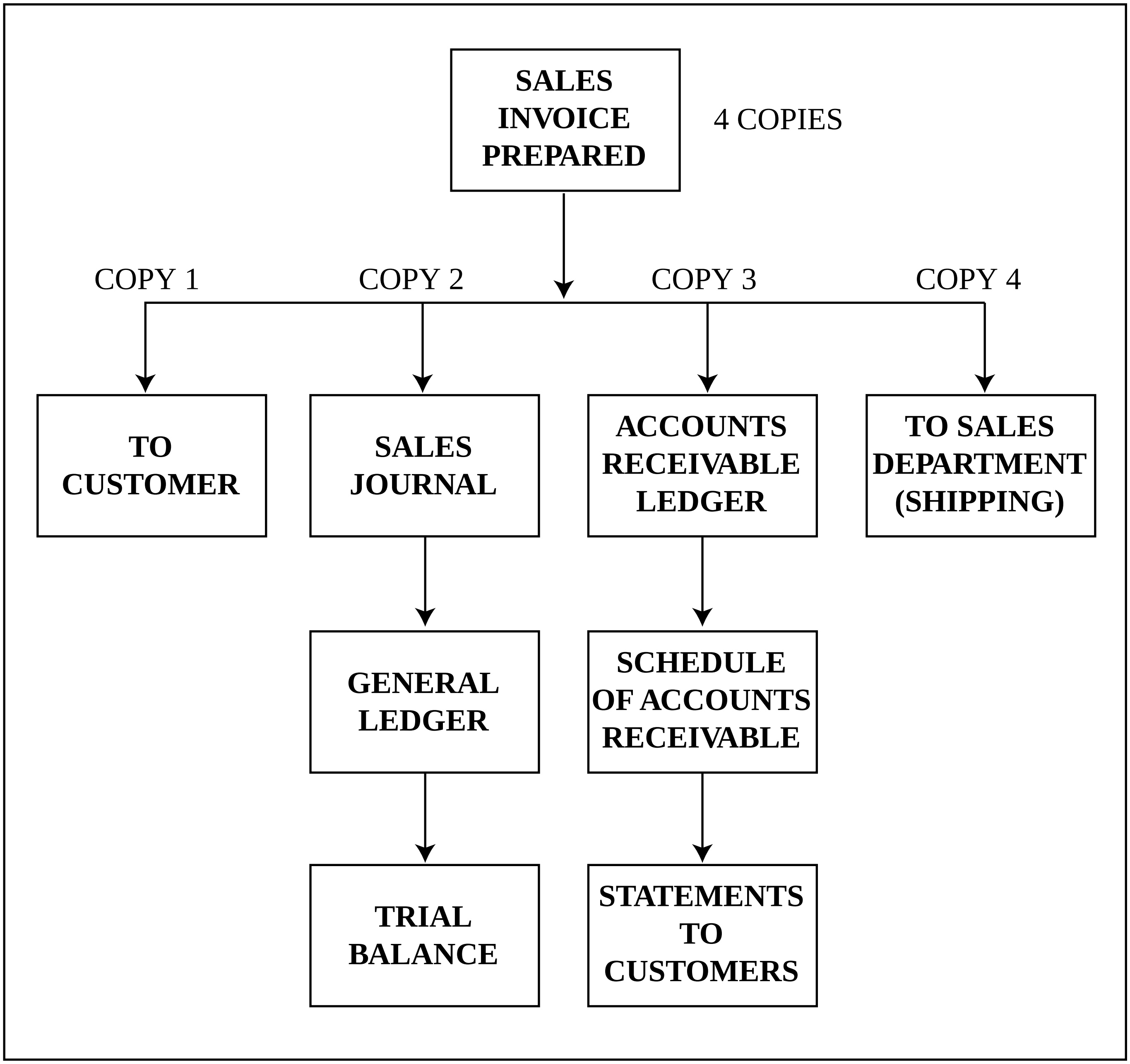
The Purchasing System: Matching Process



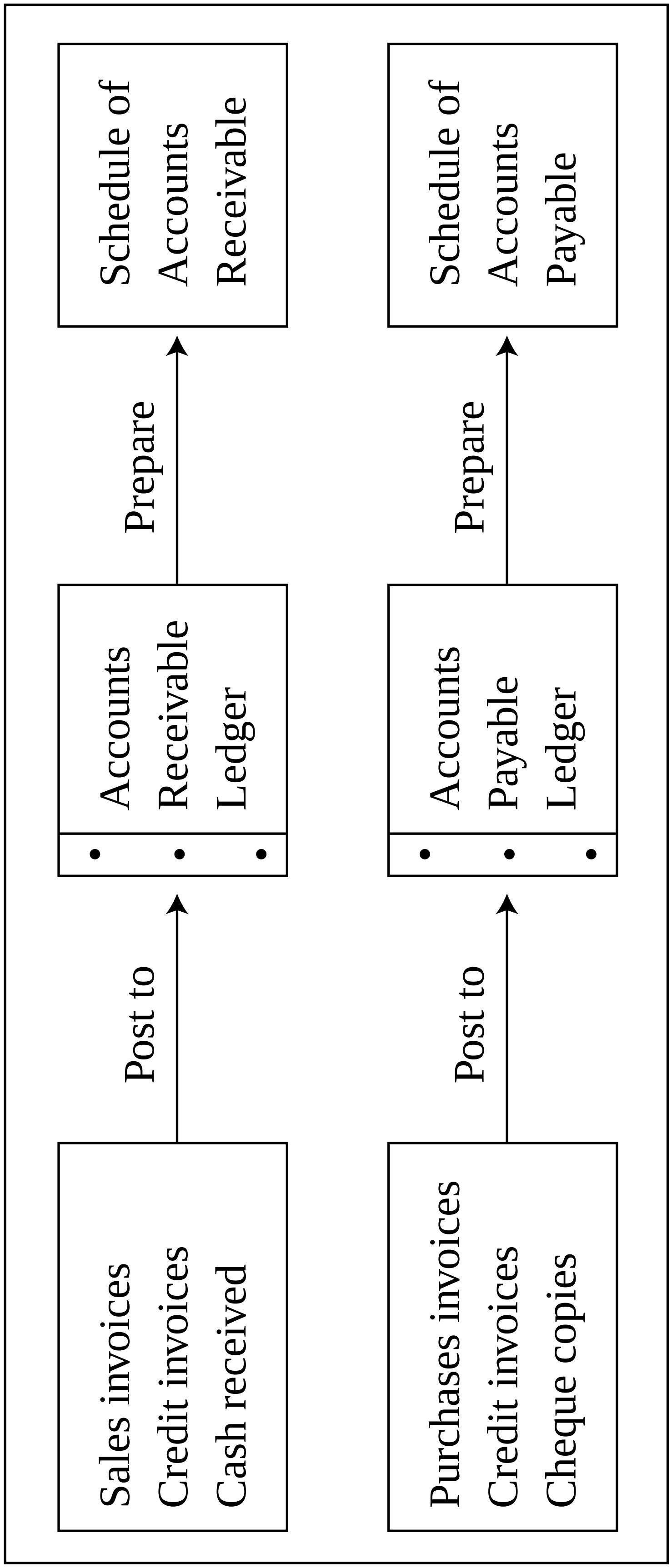
The Purchasing System: Paying Approved Invoices



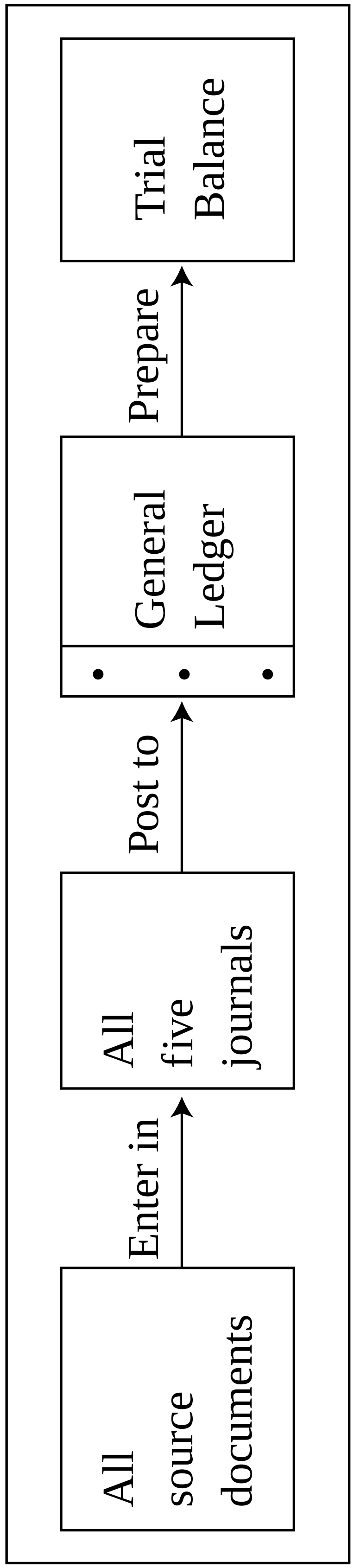
The Sales System



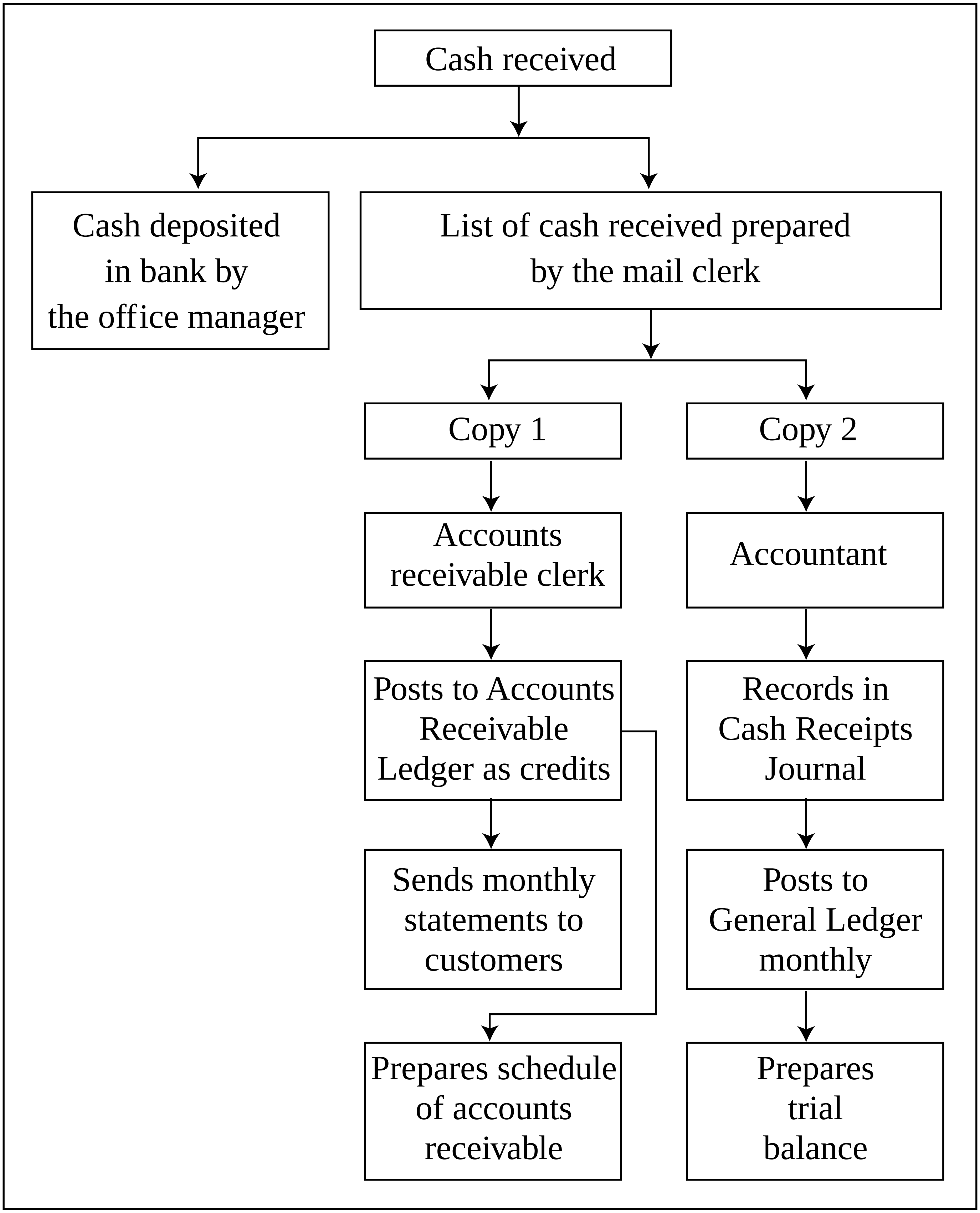
Direct Posting to Subsidiary Ledgers



Posting to the General Ledger



Control of Cash Receipts



Bank Reconciliation Procedures

BANK RECORDS:	
• BALANCE	in bank
• ADD	—unrecorded deposits
• SUBTRACT	—outstanding cheques

must equal

COMPANY RECORDS:	
• BALANCE	in ledgers
• ADD	—credit memos
	—interest earned
	—money collected
• SUBTRACT	—debit memos
	—NSF cheques
	—interest expense
	—other bank charges

Balance Sheet Method: Step 1
Prepare an Age Analysis

Accounts Receivable Age Analysis
December 31, 20—

Customer	Balance of Accounts Receivable	Current Accounts Receivable	1–30 Days Overdue	31–60 Days Overdue	61–90 Days Overdue	+90 Days Overdue
Axon	$ 400	$ 400				
Bell	200	50	$ 50	$ 100		
Clark	2 600	2 600				
Dervin	800				$ 800	
Elichuk	600	600				
All Others	48 400	40 000	4 800	900	800	$1 900
Total	$53 000	$43 650	$4 850	$1 000	$1 600	$1 900

Balance Sheet Method: Step 2
Estimate a Percentage Loss

Estimated Bad Debts
For the Year 20—

Age of Accounts	Amount	Percentage Estimated to be Uncollectible	Bad Debts Estimate
Current	$43 650	1%	$ 436
1-30 days	4 850	4%	194
31-60 days	1 000	10%	100
61-90 days	1 600	20%	320
+90 days	1 900	50%	950
Total	$53 000		$2 000

Preparing the Inventory Adjustment on the Work Sheet

Fraser Enterprises
Work Sheet
For the year ended December 31, 20—

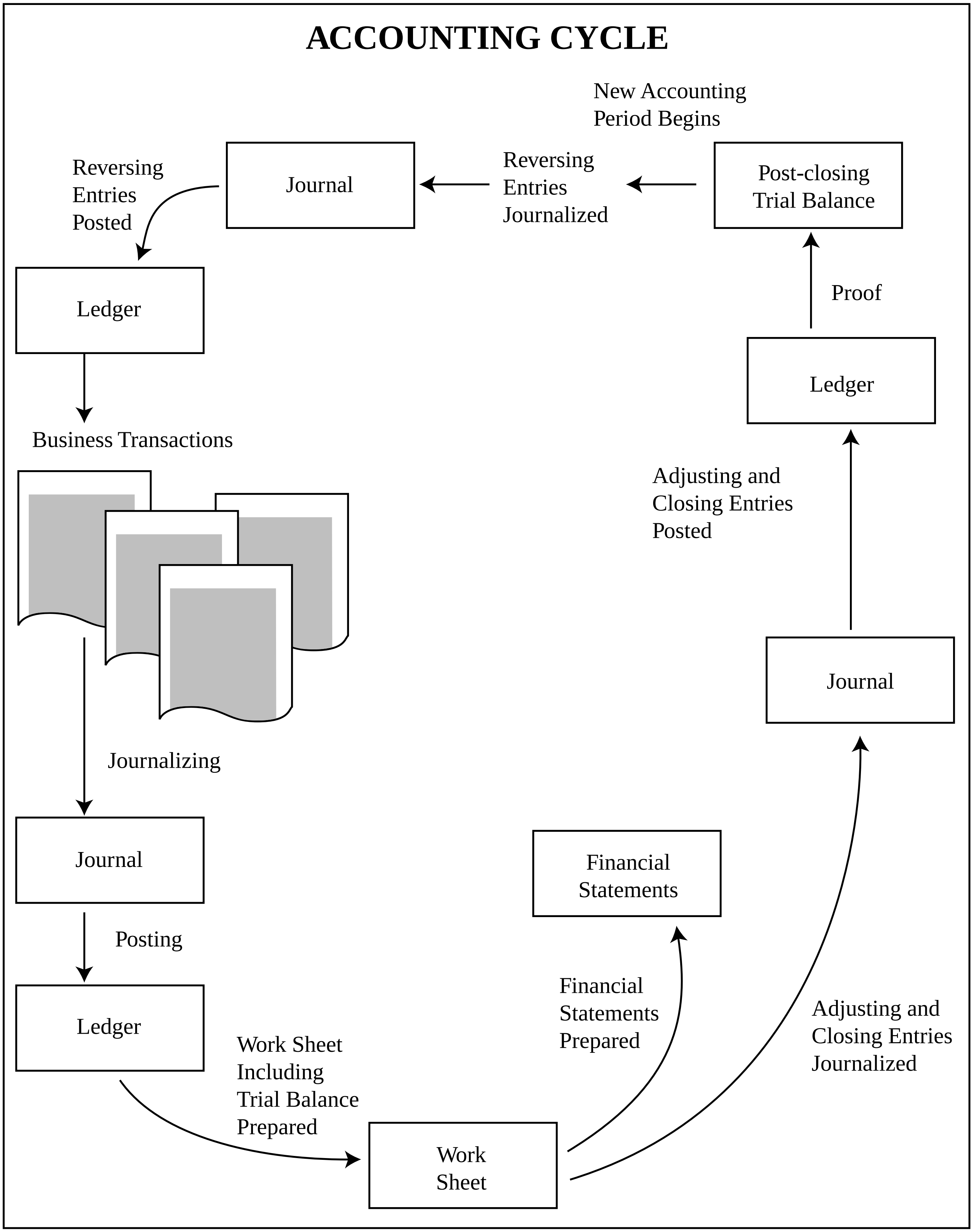
ACCOUNT TITLES	ACCT. NO.	TRIAL BALANCE		ADJUSTMENT		INCOME STATEMENT		BALANCE SHEET	
		DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Cash	101	112 000 00						112 000 00	
Accounts Receivable	110	53 000 00						53 000 00	
Allowance for Bad Debts	111		500		(a) 1 950 00				2 000 00
Merch. Inventory, Jan. 1	120	90 000 00				90 000 00	86 000 00	86 000 00	
Supplies	125	4 500 00			(b) 2 500 00			2 000 00	

Step 1 Transfer the beginning inventory to the debit column of the income statement.

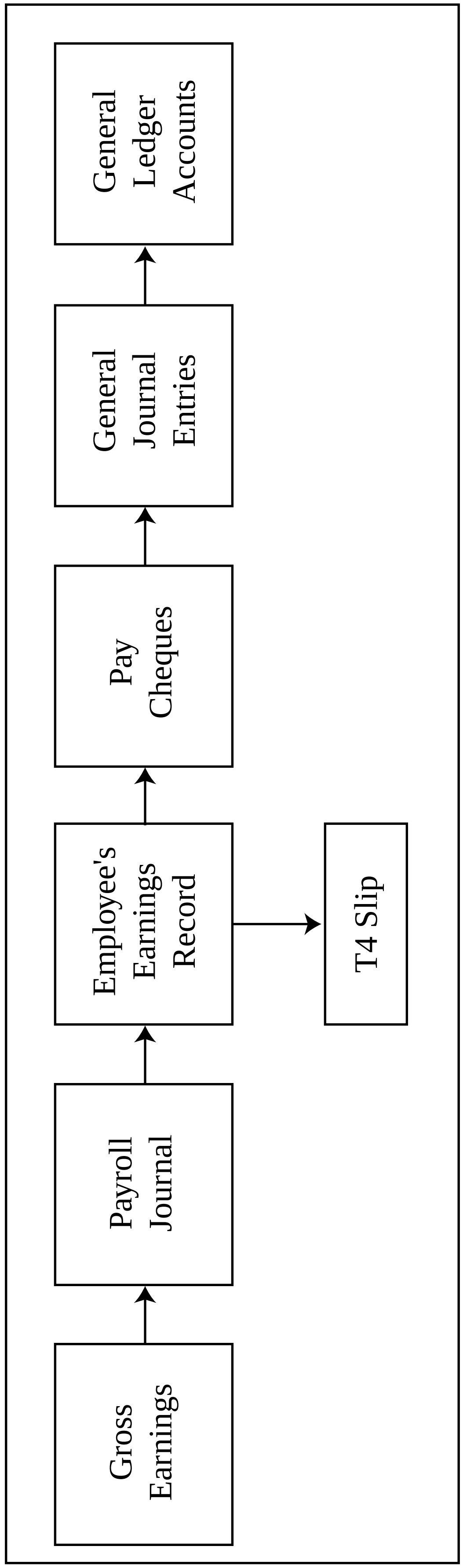
Step 2 Record the new inventory in the credit column of the income statement.

Step 3 Record the inventory in the debit column of the balance sheet.

The Complete Accounting Cycle



The Payroll Accounting System



Accounting for Partnerships

- Characteristics of Sole Proprietorships, Partnerships, and Corporations are . . .
- Advantages of each form of business are . . .
- Disadvantages of each form of business are . . .
- Journal entries to establish a partnership are . . .
- Methods to allocate Net Income or Net Loss between the partners are . . .
- Statement of Partners' Equity looks like . . .

Division of Partnership Net Income

Johnson and Casey Design Studio
Statement of Distribution of Net Income
October 31, 20—

Net Income to be divided			$150 000
	Johnson	**Casey**	**Total**
Salaries	$55 000	$55 000	$110 000
Interest on beginning capital 10%	9 000	8 000	17 000
Remaining net income shared equally	11 500	11 500	23 000
Total	$75 500	$74 500	$150 000

NOTE: Beginning capital for Johnson was $90 000 and for Casey, $80 000.

Accounting for Corporations

- Journal entries for the issuance of shares for cash and for other assets are . . .

- Types of shares:
  Common, with stated value, par value or no par
  Preferred, with stated value, par value or no par

- Features associated with preferred shares are:
  - Cumulative
  - Convertible
  - Callable
  - Participating

- Shareholders' Equity consists of:
  - Share Capital
  - Retained Earnings

- Journal entries for the Declaration and Payment of cash dividends are . . .

- Shareholders' Equity on the Balance Sheet and the Statment of Retained Earnings look like . ..

Balance Sheet—Account Form • Line Master 64

TRANSACTION SHEET

	Assets				=	Liabilities		+	Equity
Balances	$	$	$	$		$	$		$
New Balance									
New Balance									
New Balance									
New Balance									
New Balance									
New Balance									
New Balance									
New Balance									
New Balance									
New Balance									
New Balance									
New Balance									
New Balance									

Trial Balance Form • Line Master 66

ACCOUNT	ACC. NO.	DEBIT	CREDIT

Balance Sheet—Report Form and Financial Statements, 3 Column • Line Master 68

General Journal

PAGE

DATE	PARTICULARS	POST REF.	DEBIT	CREDIT

ACCOUNT NO.

DATE	PARTICULARS	POST. REF.	DEBIT	CREDIT	DR. CR.	BALANCE

ACCOUNT NO.

DATE	PARTICULARS	POST. REF.	DEBIT	CREDIT	DR. CR.	BALANCE

ACCOUNT NO.

DATE	PARTICULARS	POST. REF.	DEBIT	CREDIT	DR. CR.	BALANCE

Accounts Payable and Receivable Ledger, Short Forms • Line Master 72

ACCOUNT						NO.
DATE	PARTICULARS	POST. REF.	DEBIT	CREDIT	DR. CR.	BALANCE

ACCOUNT						NO.
DATE	PARTICULARS	POST. REF.	DEBIT	CREDIT	DR. CR.	BALANCE

ACCOUNT						NO.
DATE	PARTICULARS	POST. REF.	DEBIT	CREDIT	DR. CR.	BALANCE

ACCOUNT						NO.
DATE	PARTICULARS	POST. REF.	DEBIT	CREDIT	DR. CR.	BALANCE

ACCOUNT						NO.
DATE	PARTICULARS	POST. REF.	DEBIT	CREDIT	DR. CR.	BALANCE

ACCOUNT TITLES	ACCT. NO.	TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET	
		DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT

Work Sheet, 8 Column • Line Master 74

ACCOUNT TITLES	ACCT. NO.	TRIAL BALANCE		ADJUSTMENT		INCOME STATEMENT		BALANCE SHEET				
		DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT			

Work Sheet, 10 Column • Line Master 75

ACCOUNT TITLES	TRIAL BALANCE		ADJUSTMENT		ADJUSTED TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT

COLUMNAR JOURNAL

DATE	ACCOUNT OR EXPLANATION	REF. NO.	CASH		P.R.	OTHER ACCOUNTS	
			DEBIT	CREDIT		DEBIT	CREDIT

PAGE

ACCOUNTS RECEIVABLE		SALES	GST REFUNDABLE	GST PAYABLE	PST PAYABLE	PURCHASES	ACCOUNTS PAYABLE	
DEBIT	CREDIT	CREDIT	DEBIT	CREDIT	CREDIT	DEBIT	DEBIT	CREDIT

Purchase Journal • Line Master 78

PURCHASES JOURNAL

PAGE

DATE	REF. NO.	CREDITOR	P.R.	PURCHASES DEBIT	GST REFUNDABLE DEBIT	ACCOUNTS PAYABLE CREDIT	UTILITIES EXPENSE DEBIT	OTHER ACCOUNTS		
								ACCOUNT	P.R.	DEBIT

SALES JOURNAL PAGE

DATE	INV. NO.	CUSTOMER	TERMS	P.R.	ACCOUNTS RECEIVABLE DEBIT	SALES CREDIT	GST PAYABLE CREDIT	PST PAYABLE CREDIT

Cash Receipts Journal • Line Master 80

CASH RECEIPTS JOURNAL

PAGE

DATE	REF. NO.	CUSTOMER OR ACCOUNT	P.R.	CASH DEBIT	SALES DISCOUNTS DEBIT	ACCOUNTS RECEIVABLE CREDIT	SALES CREDIT	GST PAYABLE CREDIT	PST PAYABLE CREDIT	OTHER ACCOUNTS CREDIT

CASH PAYMENTS JOURNAL PAGE

DATE	CH. NO.	CREDITOR OR ACCOUNT	P.R.	CASH CREDIT	ACCOUNTS PAYABLE DEBIT	GST REFUND. DEBIT	PURCHASES DEBIT	PURCHASES DISCOUNTS CREDIT	OTHER ACCOUNTS DEBIT

COMPANY NAME ______________________ PAYROLL JOURNAL PAGE

PAY PERIOD ENDING ______________________

				NON-TAXABLE			OTHER DEDUCTIONS						
EMPL. NO.	NAME OF EMPLOYEE	NET CLAIM CODE	GROSS EARNINGS	RPP*	UNION DUES	TAXABLE EARNINGS	INCOME TAX	CPP	EI	HEALTH INS.	GROUP INS.	TOTAL DEDUC-TIONS	NET EARNINGS

*The term *Registered Pension Plan* (R.P.P.) identifies deductions payable to a pension plan provided by the employer.

Proof 1

Gross Earnings $ ______________

Less: Total Deductions ______________

Net Earnings $ ______________

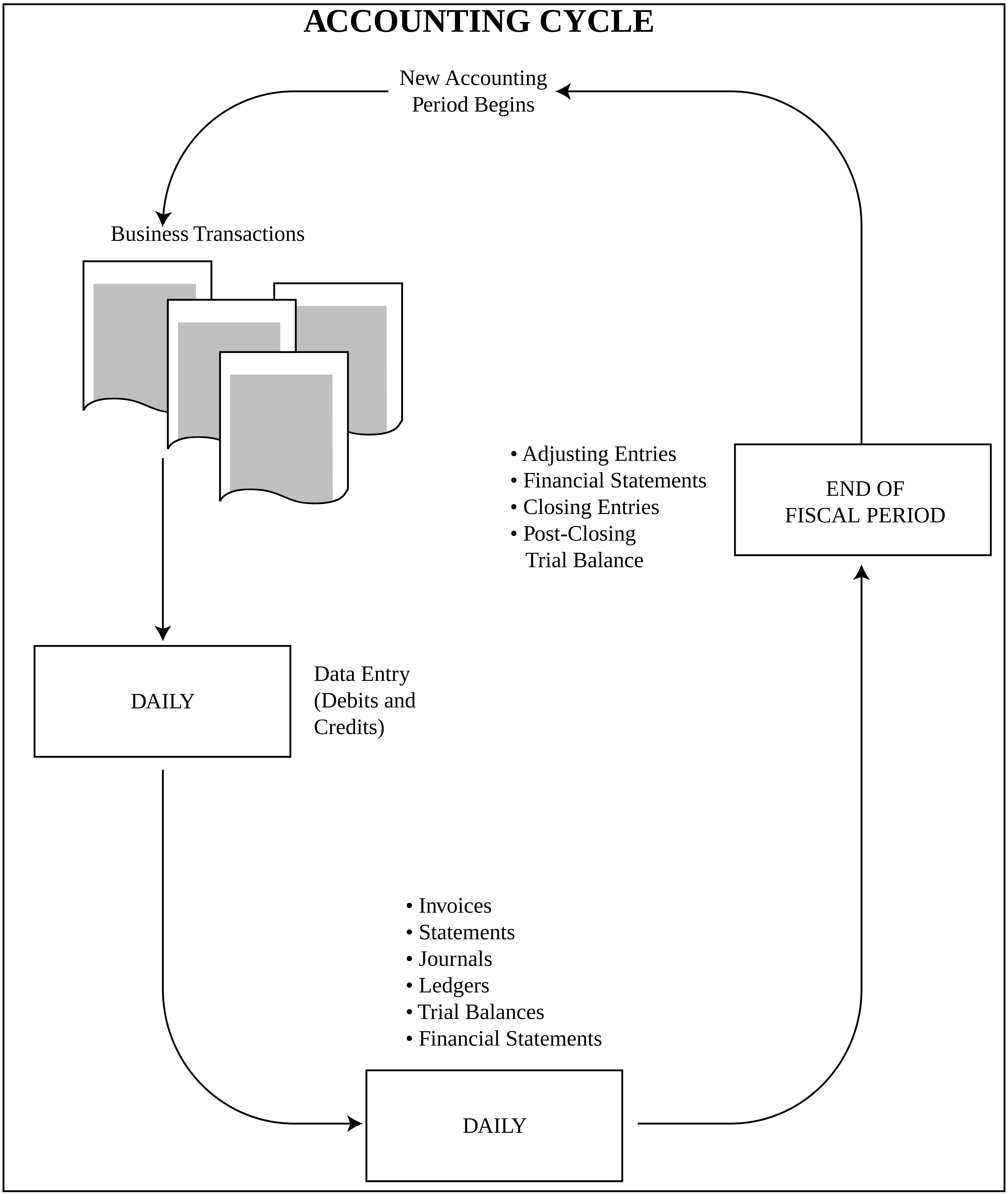
Proof 2

Gross Earnings $ ______________

Less: ______________ $ ______________

Net Earnings $ ______________

The Computer Accounting Cycle



UNIT DESIGNATION ______________________________

1. OBJECTIVES

- ______________________________
- ______________________________
- ______________________________
- ______________________________
- ______________________________

2. INTRODUCTION

____
____
____
____
____
____

3. SEQUENCE AND LESSON PLANNING

	Topic	Activities	No. of Periods
(a)			
(b)			
(c)			
(d)			
(e)			

4. TIMELINE

____
____

5. RESOURCE PLANNING

____
____

6. EVALUATION OF STUDENT ACHIEVEMENT

____
____

Harmonized Sales Tax (HST)

GST is a 7% tax that applies to taxable goods and services sold in Canada.

In three provinces (Nova Scotia, New Brunswick and Newfoundland) the GST is combined with provincial sales tax and is applied at a HST rate of 15%. HST is charged on taxable goods and services in these provinces. The combined HST rate is made up of 8% provincial sales tax and 7% GST. The 7% GST is collected in all provinces either as a separate tax or a combined tax. HST follows the same basic operating rules as GST and the accounting entries for collection and remittance are similar. In fact, when you complete your remittance form you do not have to separate the tax collected within the 15% rate. Complete information for Goods and Services Tax/Harmonized Sales Tax is available on the Revenue Canada Small Business Information Seminar web site **www.ccra.adrc.gc.ca**.

Recording HST

HST applies to goods and services sold and purchased. The business collects HST from customers on the sale, deducts HST paid to suppliers and remits the difference to the federal government. The accounting entries are reduced in provinces using the HST system since the business is recording a single tax rather than accounting for PST and GST separately.

HST Payable

The amount of Harmonized Sales Tax collected is a liability. It is owed to the federal government. The amount of HST collected during the month is credited to the HST Payable account. Is this the amount of tax that is sent to the federal government? No. The business remits HST collected minus HST paid. How does a business record HST paid (input tax credit) on goods and services purchased for the business?

HST Payable

Debit	Month	Day	Credit
	Jan.	3	201.15
		4	91.07
		6	132.32
		9	116.27
		10	87.71
		31	106.54
			3 055.93

HST Input Tax Credit

When a business purchases goods or services it is charged the cost price of the item plus HST. When Warrenton Sports purchases a set of skis for resale it is charged the cost price $500 plus $75 HST. What is the amount recorded in the Purchase account? The $500 cost price. Why is the $75 HST paid to suppliers before remitting the tax to the federal government. Therefore, Warrenton receives an input tax credit for the $75 paid.

HST Refundable	75	
Purchases	500	
Cash		575
Cash purchase of skis		

Harmonized Sales Tax (HST)

The amount of HST paid to suppliers is debited to the HST Refundable account.

HST Refundable

		Debit	Credit
Jan.	1	75.00	
	4	60.00	
	8	90.00	
	9	30.00	
	11	135.00	
	31	105.00	
		2 401.35	

The HST Refundable account is a contra liability account since it reduces the amount of a liability. The HST Payable account balance (3 055.93) is reduced by the balance in the HST Refundable account (2 401.35) in order to determine the amount owed to the federal government (654. 58). This amount is remitted to the federal government.

HST Refundable

		Debit	Credit
Jan.	1	75.00	
	4	60.00	
	8	90.00	
	9	30.00	
	11	135.00	
	31	105.00	
		2 401.35	

HST Payable

Debit			Credit
	Jan.	3	201.15
		4	91.07
		6	132.32
		9	116.27
		10	87.71
		31	106.54
			3 055.93

The HST Payable account balance is forwarded to the Receiver General of the federal government monthly, quarterly or annually depending on the size of the business.

Jan. 31	HST Payable	3 055.93	
	HST Refundable		2 401.35
	Cash		654.58
	January HST remitted		

In the even the HST paid to suppliers exceeds the HST collected from customers, the business is able to apply for a refund from the federal government.

1. Following are the HST Payable and HST Refundable accounts:

HST Payable				HST Refundable		
	Aug. 5	157.15		Aug. 4	94	
	12	194.63		11	125	
	19	187.81		20	101	
	29	201.16		30	130	

(a) How much should be remitted to the federal government for the month of August?

(b) In General Journal form, prepare the entry to remit the August tax to the federal government.

2. Record the following source document on page 273 of a General Journal:

Aug. 1 Cash register tape shows sales of $1 120 plus $168 HST.

2 Cheque received from E. Brown for $487 to pay Invoice 675.

2 Cheque received from J. Singh for $267.54 to pay Invoice 687, $273 less $5.46 discount.

4 Cheque received from B. Finch, the owner, for $4 200 as an additional investment in the business.

7 Bank credit memo, $13 800 for a bank loan that was deposited in the company bank account.

8 Cheque received from B.L. Schultz for $617.40 to pay Invoice 693, $630 less $12.60 discount.

9 Cash Sales Slips 710 to 725 for $2 670 plus $400.50 HST.

3. Record the following source documents on page 214 of a General Journal:

Sep. 10 Cheque received for $5 600 from the owner, J. Gatz, as a further investment in the business.

12 Cash Sales Slips 435 to 450 for $1 325 plus 15-percent HST.

13 Cheques received:
From C. Bowman, $457 on account;
From P. Lade, $600.74 to pay Invoice 1785 for $613 less $12.26 discount.

15 Cheque received from C. Bowman for $793.80 to pay Invoice 1794 for $810 less $16.20 discount.

15 Cash Sales Slips 451 to 473 for $4 630 plus 15-percent HST.

HST Solutions

1 (a)

HST Payable $740.75 **HST Refundable** $450.000 **Remittance** $290.75

1 (b)

General Journal					PAGE
DATE		PARTICULARS	POST REF.	DEBIT	CREDIT
2002					
Sep.	15	HST Payable		740 75	
		HST Refundable			450 00
		Cash			290 75
		Remitted Aug. HST to the federal government.			

2.

General Journal

PAGE 273

DATE		PARTICULARS	POST REF.	DEBIT	CREDIT
2000					
Mar.	1	Cash		1 288.00	
		Sales			1 120.00
		HST Payable			168.00
		Cash register tape.			
	2	Cash		487.00	
		Accounts Receivable/E. Brown			487.00
		Received from Invoice 675			
	2	Cash		267.54	
		Sales Discount		5.46	
		Accounts Receivable/J. Singh			273.00
		Received for Invoice 687.			
	4	Cash		4 200.00	
		B. Finch, Capital			4 200.00
		Additional investment.			
	7	Cash		13 800.00	
		Bank Loan			13 800.00
		Credit memo for loan.			
	8	Cash		617.40	
		Sales Discounts		12.60	
		Accounts Receivable/B.L. Schultz			630.00
		Received for Invoice 693.			
	9	Cash		3 070.50	
		Sales			2 670.00
		HST Payable			400.50
		Cash sales slips 710 to 725.			

3.

General Journal

PAGE 214

DATE		PARTICULARS	POST REF.	DEBIT	CREDIT
2001					
Sep.	10	Cash		5 600 00	
		J. Gatz, Capital			5 600 00
		Additional investment.			
	12	Cash		1 523 75	
		Sales			1 325 00
		HST Payable			198 75
		Cash sales slips 435 to 450.			
	13	Cash		457 00	
		Accounts Receivable/C. Bowman			457 00
		Received on account.			
	13	Cash		600 74	
		Sales Discount		12 26	
		Accounts Receivable/P. Lade			613 00
		Received for Invoice 1785.			
	15	Cash		793 80	
		Sales Discounts		16 20	
		Accounts Receivable/C. Bowman			810 00
		Received for Invoice 1794.			
	15	Cash		5 324 50	
		Sales			4 630 00
		HST Payable			694 50
		Cash sales slips 451 to 473.			