

CHAPTER 6**The Journal and Source Documents****SECTION 6.1 REVIEW QUESTIONS** (page 180)

1. *“The accounting entries become scattered through the ledger” means that the individual debit and credit amounts contained in one accounting entry are recorded in a variety of accounts throughout the ledger.*

2. *Recording each transaction separately and in chronological order provides an important, continuous record of all transactions. The journal makes future investigations into the accounting records easy.*

3. *A journal is a book in which the accounting entries for all transactions are first recorded, in order of date, before they are recorded in the ledger accounts.*

4. *A journal entry is the complete accounting entry for a transaction in the form in which it is written in the general journal.*

5. *Journalizing is the process of recording accounting entries in the journal.*

6. *A journal is known as a book of original entry because it is the place where the accounting entries are first recorded.*

7. *The two-column general journal has a column for the date, the account names, and the posting references, and then two money columns: one for the debit amounts and one for the credit amounts.*

8. *In the general journal, a blank line is left between journal entries to show where one journal entry ends and another begins.*

SECTION 6.1 REVIEW QUESTIONS (continued)

9. A. *The year is always entered at the very top of the date column.*

B. *The year is re-entered in the date column at the point where a new year begins.*

C. *The month is always entered on the first line of the date column.*

D. *The month is re-entered in the date column at the point where a new month begins.*

E. *The day is recorded for every transaction.*

10. *The accounts that are to be debited are recorded first.*

11. *The accounts that are to be credited are indented.*

12. *Explanations are recorded immediately beneath the debits and credits, beginning at the left side of the Particulars column and staying within it.*

13. *The purpose of an explanation in a journal entry is to make each entry unique. The explanation usually contains the reference number for the source document related to the entry.*

14. *Besides a daily list of accounting entries, the journal provides a place to work out the accounting entries for the various transactions and is a good reference for all the transactions completed by the business since they are in order of date.*

15. *The opening entry is the very first journal entry recorded in a journal. It is taken from the account balances in the balance sheet.*

SECTION 6.1 EXERCISES (page 180)**Exercise 1, p. 180****GENERAL JOURNAL**

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DATE		PARTICULARS	PR.	DEBIT					CREDIT					
²⁰⁻ Feb.	3	<i>Rent Expense</i>		3	5	0	0	-						
		<i>Bank</i>							3	5	0	0	-	
		<i>Paid February's rent; cheque No. 411</i>												
	5	<i>A/P—Western Electric</i>		4	0	0	-							
		<i>Bank</i>							4	0	0	-		
		<i>Paid Western Electric on account; cheque No. 412</i>												
	7	<i>Bank</i>		6	7	5	-							
		<i>Repair Revenue</i>							6	7	5	-		
		<i>Repair service for cash; sales receipt No. 5689</i>												
	10	<i>T. Castillo, Drawings</i>		2	0	0	0	-						
		<i>Bank</i>							2	0	0	0	-	
		<i>Owner withdrew cash; cheque No. 413</i>												
	11	<i>Bank</i>		9	5	0	-							
		<i>A/R—C. Jacobs</i>							9	5	0	-		
		<i>Payment of sales invoice No. 5652</i>												
	14	<i>Truck Expense</i>		4	8	5	-							
		<i>Bank</i>							4	8	5	-		
		<i>Repaired truck; cheque No. 414</i>												
	17	<i>Light and Heat Expense</i>		3	7	5	-							
		<i>Bank</i>							3	7	5	-		
		<i>Paid for utilities; Confirmation No. 22321</i>												
	24	<i>A/R—D. Steiger</i>		1	1	7	5	-						
		<i>Repair Revenue</i>							1	1	7	5	-	
		<i>Repair on account; invoice No. 5690</i>												
	28	<i>Wages Expense</i>		2	0	0	0	-						
		<i>Bank</i>							2	0	0	0	-	
		<i>February wages; cheque No. 415</i>												

SECTION 6.1 EXERCISES (continued)

Exercise 2, p. 181

A. PAULA PERNA
BALANCE SHEET
JUNE 1, 20-

Assets						Liabilities							
Bank	\$	2	5	0	0	-	A/P—The Stationery Store	\$	3	2	5	0	-
Law Library		6	5	0	0	-	Loan Payable		8	7	5	0	-
Office Equipment		8	2	5	0	-	Total Liabilities	\$12	0	0	0	-	
Automobile		16	5	0	0	-							
							Owner's Equity						
							P. Perna, Capital	21	7	5	0	-	
Total Assets	\$33	7	5	0	0	-	Total Liabilities & Equity	\$33	7	5	0	-	

B., C.

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PAGE 1

DATE	PARTICULARS	PR.	DEBIT					CREDIT				
Jun. ²⁰⁻ 1	Bank		2	5	0	0	-					
	Law Library		6	5	0	0	-					
	Office Equipment		8	2	5	0	-					
	Automobile		16	5	0	0	-					
	A/P—The Stationery Store							3	2	5	0	-
	Loan Payable							8	7	5	0	-
	P. Perna, Capital							21	7	5	0	-
	Opening entry											
1	Rent Expense		3	5	0	0	-					
	Bank							3	5	0	0	-
	Paid June's rent											
2	Office Supplies		3	7	5	-						
	A/P—The Stationery Store							3	7	5	-	
	Bought supplies on account											
3	Bank		1	2	0	0	-					
	Fees Earned							1	2	0	0	-
	Legal service for cash											

SECTION 6.1 EXERCISES (continued)**Exercise 2, p. 181** (continued)

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PAGE 2

DATE		PARTICULARS	P.R.	DEBIT				CREDIT			
<i>Jun.</i> ²⁰⁻	5	<i>A/R—R. Spooner</i>		6	5	0	-				
		<i>Fees Earned</i>						6	5	0	-
		<i>Legal service on account</i>									
	8	<i>A/P—The Stationery Store</i>		1	0	0	0	-			
		<i>Bank</i>						1	0	0	0
		<i>Payment on account</i>									
	10	<i>A/R—T. & R. Builders</i>		1	1	0	0	-			
		<i>Fees Earned</i>						1	1	0	0
		<i>Legal service on account</i>									
	11	<i>Bank</i>		3	5	0	-				
		<i>A/R—R. Spooner</i>						3	5	0	-
		<i>Received on account</i>									
	15	<i>Car Expense</i>		8	0	-					
		<i>Bank</i>						8	0	-	
		<i>Paid for gasoline</i>									
	20	<i>Wages Expense</i>		4	5	0	-				
		<i>Bank</i>						4	5	0	-
		<i>Part-time secretarial help</i>									
	24	<i>General Expense</i>		6	5	-					
		<i>Bank</i>						6	5	-	
		<i>Paid for postage</i>									
	24	<i>Loan Interest Expense</i>		6	0	-					
		<i>Loan Payable</i>		2	6	0	-				
		<i>Bank</i>						3	2	0	-
		<i>Monthly payment</i>									
	30	<i>P. Perna, Drawings</i>		4	0	0	-				
		<i>Car Expense</i>		5	0	-					
		<i>Bank</i>						4	5	0	-
		<i>Owner's withdrawal</i>									

SECTION 6.1 EXERCISES (continued)**Exercise 3, p. 182**

- *The page number is missing.*
- *The year is missing.*
- *The month, Feb., is repeated for every transaction. It should only appear at the top of the page.*
- *On Feb. 7, Supplies, the Dr, should be listed before the Cr, Bank.*
- *On Feb. 10, the amount of Loss on Sale, should be \$160. (\$250 – \$90 = \$160)*
- *On Feb. 22, the date is repeated twice and the description is missing.*
- *The date, 22, is missing from the \$125 sale to E. James.*
- *Service for E. James performed on account (not for cash) since it is debited to A/R.*
- *On Mar. 3, the amounts have been reversed: the Dr should be a Cr and the Cr a Dr.*

Exercise 4, p. 183

- A. *The owner, Kelly Marshall, invested \$5000 into the business.*
- B. *Supplies worth \$530 were purchased with cash.*
- C. *The owner, Kelly Marshall, withdrew \$200 cash for her personal use.*
- D. *Goods or services worth \$220 were sold to Jan Vasko on account.*
- E. *Supplies worth \$170 were purchased from Fain Brothers on account.*

Exercise 5, p. 183**GENERAL JOURNAL**

PAGE 1

DATE		PARTICULARS	P.R.	DEBIT					CREDIT				
<i>20-</i> <i>Aug.</i>	<i>1</i>	<i>Bank</i>		<i>2</i>	<i>2</i>	<i>0</i>	<i>0</i>	<i>–</i>					
		<i>Office Equipment</i>		<i>6</i>	<i>9</i>	<i>0</i>	<i>0</i>	<i>–</i>					
		<i>Land</i>		<i>92</i>	<i>5</i>	<i>0</i>	<i>0</i>	<i>–</i>					
		<i>Building</i>		<i>185</i>	<i>9</i>	<i>0</i>	<i>0</i>	<i>–</i>					
		<i>A/P—Diamond Equipment</i>								<i>3</i>	<i>5</i>	<i>0</i>	<i>–</i>
		<i>Mortgage Payable</i>								<i>132</i>	<i>5</i>	<i>6</i>	<i>0</i>
		<i>R. D’Alvese, Capital</i>								<i>154</i>	<i>5</i>	<i>9</i>	<i>0</i>
		<i>Opening entry</i>											

SECTION 6.1 EXERCISES (continued)**Exercise 6, p. 183****GENERAL JOURNAL**

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DATE		PARTICULARS	P.R.	DEBIT				CREDIT			
Aug. ²⁰⁻	3	Bank		4	5	2	25				
		A/R—P. Daniel						4	5	2	25
		Received full payment of invoice No. 4544									
	6	A/P—Walberg Bros.		3	0	0	–				
		Bank						3	0	0	–
		On account; cheque No. 112									
	9	Cleaning Supplies		4	1	2	78				
		A/P—Merrick Products						4	1	2	78
		Purchased supplies on account; invoice No. 3321									
	10	Bank		3	1	4	–				
		Service Revenue						3	1	4	–
		Window washing for cash; deposit slip No. 2321									
	15	Cellphone Expense		1	8	3	99				
		Bank						1	8	3	99
		Paid bill online; confirmation No. 3335									
	19	C. Lehto, Drawings		1	2	0	0	–			
		Bank						1	2	0	0
		Owner's personal use; cheque No. 113									
	20	Truck Expense		1	1	4	56				
		Bank						1	1	4	56
		Paid for gas with debit card; receipt No. 89302									
	25	Miscellaneous Expense		7	5	–					
		Cleaning Supplies						7	5	–	
		To correct a previous error									

SECTION 6.2 REVIEW QUESTIONS (page 193)

1. *Some transactions that require journal entries are initiated by the owner, sales people, department supervisors, managers, and other authorized people.*
2. *The accounting department learns about all the transactions in a business through the source documents that are sent to the accounting office.*
3. *A source document is a business paper that provides all the details about a business transaction.*
4. *Source documents are used by the accounting department as the primary source of information for accounting entries.*
5. *A transaction that would not have a conventional source document would be a withdrawal of money, by the owner, from the business for personal use.*
6. *The employees outside of the accounting department who made the transactions may need to see the source documents on file to check the details. An auditor may also need to see the source documents.*
7. *A cash sales slip is a business form used to record the details of a cash sale.*
8. *A sales invoice represents a sale on account, which has yet to be paid for, while a cash sales slip represents a sale for cash, which has been paid in full.*
9. *The vendor is the business selling the goods or services.*
10. *A point of sale terminal is a computerized sales register that allows a business and its customers to exchange funds electronically.*
11. *False. When a customer uses a credit card to purchase an item, the business debits Bank because credit card purchases are treated like cash receipts.*
12. *A purchase invoice is a document received from a supplier when you purchase goods or services on account. The supplier calls it a sales invoice but you, the buyer, refer to it from your own point of view as a purchase document.*
13. *All journal entries for purchase invoices are not the same because businesses purchase a variety of goods and services from many different suppliers. Some purchases, for example, will be for assets, others will be for services (expenses). While the debits change for purchase invoices, the credit to accounts payable remains constant.*
14. *A cheque itself is not used as a source document because it must be sent out to the payee. A copy of the cheque is kept and used as a source document.*
15. *In business, a payment on account is the most common transaction for which a cheque is issued.*
16. *The supporting documents that are needed for payment by cheque are an invoice or bill that shows the details of the transaction and a copy of the cheque.*
17. *Cash receipts are the cash and cheques that are received by a company in the course of doing business.*

SECTION 6.2 REVIEW QUESTIONS (continued)

18. *It is necessary to prepare a cash receipts daily summary because the cheques a company receives as payment cannot be kept as source documents. They must be sent to the bank to be cashed. The cash receipts daily summary and copies of the cheques are source documents for the funds received.*
19. *The clerk prepares the cash receipts listing using the tear-off portion of the cheques and the remittance advices that accompany the cheques.*
20. *Banks issue bank advices to inform clients about transactions in their bank accounts that originate from the bank. The bank will also use bank statements to inform clients of such transactions.*
21. *From the bank's point of view, a client's bank account is a liability. To decrease a client's account requires a debit entry because it is a liability account, so a debit memo is sent to inform the client. From the business's point of view, their bank account is an asset. The debit memo is a decrease in their bank account, so it requires a credit entry at the business's end.*

SECTION 6.2 EXERCISES (page 193)**Exercise 1, p. 193**

- A. *The document is a cash receipts daily summary.*
- B. *The cash receipts daily summary is a source document for cheques coming in from customers on account.*
- C. *The cash receipts daily summary is compiled from cheques and remittance advices.*
- D. *The cash receipts daily summary is prepared because the cheques cannot be used as source documents since they will be deposited in the bank.*
- E. *On account means that the amount received is to pay some portion of an outstanding account balance. Invoice 4502 means that the cheque is to pay for that specific invoice.*
- F.

DATE		PARTICULARS	DEBIT					CREDIT				
Mar. ²⁰⁻	14	Bank	1	2	3	0	03					
		A/R—Degagne Machine Shop							5	0	0	–
		A/R—Kivella Bake Shop							3	1	5	43
		A/R—Molner Paints							2	1	4	60
		A/R—Robitaille Taxi							2	0	0	–

- G. *G. Smalley is the clerk who prepared the cash receipts list.*

SECTION 6.2 EXERCISES (continued)**Exercise 2, p. 194**

- A. *The document is a cash sales slip.*
- B. *The cash sales slip is a source document that provides evidence and details of a transaction where goods or services are sold for cash.*
- C. *Davidson Tree Experts issued the document.*
- D. *The document number is an accounting control method that ensures all cash sales are recorded and no slips are lost or faked. It also provides a reference number in case the transaction needs to be referred to later.*
- E.

DATE		PARTICULARS	DEBIT				CREDIT			
<i>Mar.²⁰⁻</i>	<i>10</i>	<i>Bank</i>	<i>3</i>	<i>3</i>	<i>0</i>	<i>-</i>				
		<i>Fees Earned</i>					<i>3</i>	<i>3</i>	<i>0</i>	<i>-</i>

Exercise 3, p. 195

- A. *The document is a sales invoice and a purchase invoice.*
- B. *Knutsen and Trebley is the sender. Hansen and Company is the recipient.*
- C. *It is a sales invoice to Knutsen and Trebley. It is a purchase invoice to Hansen and Company.*
- D.

DATE		PARTICULARS	DEBIT				CREDIT			
<i>Mar.²⁰⁻</i>	<i>17</i>	<i>A/R—Hansen and Company</i>	<i>4</i>	<i>9</i>	<i>8</i>	<i>50</i>				
		<i>Fees Earned</i>					<i>4</i>	<i>9</i>	<i>8</i>	<i>50</i>

E.

DATE		PARTICULARS	DEBIT				CREDIT			
<i>Mar.²⁰⁻</i>	<i>17</i>	<i>Legal Expense</i>	<i>4</i>	<i>9</i>	<i>8</i>	<i>50</i>				
		<i>A/P—Knutsen and Trebley</i>					<i>4</i>	<i>9</i>	<i>8</i>	<i>50</i>

SECTION 6.2 EXERCISES (continued)**Exercise 4, p. 195**

- A. *The document is a cheque.* _____
- B. *Presto-Can Company is my employer.* _____
- C. *The document was sent to my company in payment of three sales invoices.* _____
- D. *The broken line divides the cheque from the tear-off portion of the cheque.* _____
- E. *The information beneath the broken line shows which invoices this cheque is to pay for, along with a total.* _____
- F. _____

DATE		PARTICULARS	DEBIT					CREDIT					
<i>Mar.</i> ²⁰⁻	<i>10</i>	<i>Bank</i>	<i>1</i>	<i>3</i>	<i>6</i>	<i>8</i>	<i>30</i>						
		<i>A/R—Carbide Tools Limited</i>						<i>1</i>	<i>3</i>	<i>6</i>	<i>8</i>	<i>30</i>	

- G. *The upper portion of the document, the cheque, is deposited in the bank.* _____

Exercise 5, p. 196

- A. *The document is a bank credit advice.* _____
- B. *A journal entry is necessary in the books of Electroniks Company.* _____
- C. _____

DATE		PARTICULARS	DEBIT					CREDIT					
<i>Mar.</i> ²⁰⁻	<i>6</i>	<i>Bank</i>		<i>3</i>	<i>6</i>	<i>2</i>	<i>04</i>						
		<i>Interest Earned</i>						<i>3</i>	<i>6</i>	<i>2</i>	<i>04</i>		

SECTION 6.3 REVIEW QUESTIONS (page 205)

- Governments tax business transactions to collect revenue to fund services like education, healthcare, and social assistance programs.* _____
- 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.* _____
- Retail sales taxes are charged to the final buyer of goods (and some services).* _____
- The purchaser does no special accounting for retail sales tax. It is the seller's responsibility to account for the retail sales tax.* _____
- PST collected from customers is recorded in the PST Payable account, which is a liability account.* _____
- PST must be remitted to the government every month by the 15th day of the following month.* _____

SECTION 6.3 REVIEW QUESTIONS (continued)

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.*

SECTION 6.3 EXERCISES (page 205)**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.

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DATE		PARTICULARS	P.R.	DEBIT				CREDIT			
<i>Jan.</i> ²⁰⁻	6	<i>Bank</i>			8	1	-				
		<i>Sales</i>							7	5	-
		<i>PST Payable</i>							6		-
		<i>Cash sale; cash sales slip No. 4923</i>									
	7	<i>Bank</i>			1	2	9 60				
		<i>Sales</i>							1	2	0 -
		<i>PST Payable</i>								9	60
		<i>Cash sale; cash sales slip No. 4924</i>									
	8	<i>Accounts Receivable</i>				6	3 29				
		<i>Sales</i>								5	8 60
		<i>PST Payable</i>								4	69
		<i>Sale on account; invoice No. 7828</i>									
	9	<i>Accounts Receivable</i>				1	0 5 84				
		<i>Sales</i>								9	8 -
		<i>PST Payable</i>								7	84
		<i>Sale on account; invoice No. 7833</i>									

SECTION 6.3 EXERCISES (continued)

Exercise 2, p. 205

A.

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

B.

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

SECTION 6.3 EXERCISES (continued)**Exercise 3, p. 206****GENERAL JOURNAL**

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DATE		PARTICULARS	P.R.	DEBIT					CREDIT					
<i>Nov.</i> ²⁰⁻	15	<i>Bank</i>		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	<i>Bank</i>		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>												

SECTION 6.3 EXERCISES (continued)**Exercise 4, p. 207**

A.

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>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>												

SECTION 6.3 EXERCISES (continued)

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>												

SECTION 6.3 EXERCISES (continued)**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.*

SECTION 6.3 COMMUNICATE IT (page 208)

Students should point out to Mr. McKill that the source of the confusion comes from the different accounting points of view held by the two parties. From the business's point of view, the HST Recoverable account is debited because it is used to reduce a tax liability. The amount of HST owing accumulates in the HST Payable account with credits and it decreases in the HST Recoverable account with debits. The government holds the opposite point of view. From its perspective, the HST owed by McKill's Consulting is a receivable, in other words, an asset. Assets increase with debits and decrease with credits. When the government issues an Input Tax Credit, the credit reduces its HST Receivable—McKill's Consulting account.

SECTION 6.4 REVIEW QUESTIONS (page 213)

- The main purpose of the AutoFill feature is to save time by having the spreadsheet software enter data into cells for you.*
- The AutoFill feature needs only one cell containing the first month in order to fill in a list of months.*
- An absolute cell reference is a cell reference that will not change when it is copied to a new location.*
- To make a cell reference absolute, type a dollar sign before the letter and number of the cell reference. For example, to make cell C4 absolute, type \$C\$4. The shortcut for entering the dollar signs is to press Alt/F4 (Windows) or Command/T (Mac) after pointing to a cell. You can also use these shortcuts when the cell reference is highlighted.*

SECTION 6.4 EXERCISES (page 213)**Exercise I, p. 213**

A. to C. This is a spreadsheet exercise.

Rental Painting										
Variable Data			PST Factor	GST	HST					
Projections	Sales	Purchases	4%	5%	12%					
Jan to Mar	8%	40%								
Apr to May	13%									
Jun to Sep	18%									
Oct to Dec	-32%									
Changes:										
Drop Sales by 2% projections by 2%; start January with \$196 000										
Change the PST factor to 4%										
Sales Tax Projections										
	Sales	Purchases	PST Portion	GST Payable	GST Recoverable	GST Remittance	HST Payable	HST Recoverable	HST Remittance	
January	196,000	78,400	3,136	9,800	3,920	5,880	23,520	9,408	14,112	
February	211,680	84,672	3,387	10,584	4,234	6,350	25,402	10,161	15,241	
March	228,614	91,446	3,658	11,431	4,572	6,858	27,434	10,973	16,460	
April	258,334	103,334	4,133	12,917	5,167	7,750	31,000	12,400	18,600	
May	291,918	116,767	4,671	14,596	5,838	8,758	35,030	14,012	21,018	
June	329,867	131,947	5,278	16,493	6,597	9,896	39,584	15,834	23,750	
July	389,243	155,697	6,228	19,462	7,785	11,677	46,709	18,684	28,026	
August	459,307	183,723	7,349	22,965	9,186	13,779	55,117	22,047	33,070	
September	541,982	216,793	8,672	27,099	10,840	16,259	65,038	26,015	39,023	
October	368,548	147,419	5,897	18,427	7,371	11,056	44,226	17,690	26,535	
November	250,613	100,245	4,010	12,531	5,012	7,518	30,074	12,029	18,044	
December	170,417	68,167	2,727	8,521	3,408	5,112	20,450	8,180	12,270	
	3,696,522	1,478,609	59,144	184,826	73,930	110,896	443,583	177,433	266,150	
Summary			GST		HST					
	GST Cash Debits	184,826	HST Cash Debits	443,583						
	GST Cash Credits	110,896	HST Cash Credits	266,150						
	GST Net Cash Debits	73,930	HST Net Cash Debits	177,433						
			Plus PST Cost Savings	59,144						
	Total Effect on Cash	73,930	Total Effect on Cash	236,577						
			Difference	162,647						
			Difference from the "what if" changes:	73,170						

Dropping the sales projections is reasonable. Business people who use spreadsheet models will experiment with multiple input variables when performing analytical tasks. The PST factor is a percentage used to calculate the cost savings gained by eliminating the 7% cost that businesses pay to their suppliers on purchases. Dropping the factor to 4% from 7% seems very reasonable because some suppliers may be inclined to gain from the HST system by increasing their prices. The what-if variables produced a significant impact on cash with an increase of \$73 170.

CHAPTER 6**REVIEW EXERCISES** (page 215)**Using Your Knowledge****Exercise 1, p. 215**

Nature of Transaction	Source Document(s)	Required Journal Entry	
		Accounts Debited	Accounts Credited
Payment on account	<i>cheque copy</i>	<i>Accounts Payable</i>	<i>Bank</i>
Sale on account	<i>sales invoice</i>	<i>Accounts Receivable</i>	<i>Sales, HST Payable</i>
Bank service charge	<i>bank debit advice, bank statement</i>	<i>Bank Charges</i>	<i>Bank</i>
Cash payment of phone bill	<i>cheque copy, telephone bill</i>	<i>Telephone Expense, HST Recoverable</i>	<i>Bank</i>
Cash received on account	<i>daily summaries, cash receipts list</i>	<i>Bank</i>	<i>Accounts Receivable</i>
Purchase of equipment on account	<i>purchase invoice</i>	<i>Equipment, HST Recoverable</i>	<i>Accounts Payable</i>
Cash sale	<i>cash sales slips, POS summaries</i>	<i>Bank</i>	<i>Sales, HST Payable</i>

Exercise 2, p. 215

Source Document	Document Number	Transactions	Document Number(s)
Bank credit memo	1	Owner withdraws money.	<i>3, 8</i>
Bank debit memo	2	Purchase of equipment on account.	<i>6</i>
Cheque copy	3	Payment on account.	<i>3</i>
Cash sales slip	4	Cash sale.	<i>4</i>
Sales invoice	5	Sale on account.	<i>5</i>
Purchase invoice	6	Cheques received from customers on account.	<i>7</i>
Cash receipts list	7	Increase bank loan.	<i>1, 8, 9</i>
Owner's written memo	8	Owner invests additional money in the business.	<i>8</i>
Bank statement	9	Bank service charge.	<i>2, 9</i>

CHAPTER 6 REVIEW EXERCISES (continued)**Exercise 3, p. 216**

Indicate whether each of the following statements is true or false by entering a T or an F in the space provided. Explain the reason for each F response in the space provided.

- | | |
|---|----------|
| A. Anyone in the business can initiate a business transaction. | <u>F</u> |
| B. Every journal entry is based on a source document. | <u>T</u> |
| C. The only purpose of source documents is to provide the basis for a journal entry. | <u>F</u> |
| D. A business that sells to its customers on a cash basis does not normally use a sales invoice. | <u>T</u> |
| E. Journal entries for all cash sales slips are essentially the same. | <u>T</u> |
| F. Sales invoices are used by businesses that make most of their sales on account. | <u>T</u> |
| G. For every sales invoice, there is a debit to an account receivable. | <u>T</u> |
| H. The transaction log that is produced by a POS terminal is used by an accounting clerk to record a debit to Bank and a credit to Sales. | <u>F</u> |
| I. Every sales invoice is also a purchase invoice. | <u>T</u> |
| J. The debit entry for every purchase invoice is always the same. | <u>F</u> |
| K. The supporting document for a payment on account is the tear-off portion of a cheque. | <u>F</u> |
| L. The credit entry for every cheque copy payment is always the same. | <u>T</u> |
| M. Cheques received are considered to be cash received. | <u>T</u> |
| N. The bank has no right to make deductions from the accounts of its customers. | <u>F</u> |
| O. We debit Bank when we receive a bank debit memo. | <u>F</u> |
| P. The cost principle states that every asset acquired is to be recorded at its cost price. | <u>T</u> |
| Q. The best objective evidence of a purchase is a purchase invoice received from an independent supplier. | <u>T</u> |
| R. Only provincial governments are allowed to charge sales taxes. | <u>F</u> |
| S. The purchaser of goods or services is required to make accounting entries for provincial sales tax. | <u>F</u> |
| T. The HST account is an expense account. | <u>F</u> |
| U. A contra account is used in retail sales tax accounting. | <u>F</u> |
| V. The normal remittance entry for HST is a debit to HST Payable and a credit to Bank. | <u>F</u> |

CHAPTER 6 REVIEW EXERCISES (continued)**Exercise 3, p. 216** (continued)**Explanations for F Responses**

A. Only certain people are authorized to initiate business transactions.

C. Source documents are also used for reference purposes.

H. The transaction log contains detailed information about each transaction; the POS Summary is used for the accounting entry.

J. The account debited depends on what was purchased.

K. The supporting document is the cheque copy.

N. At the time the account is opened, the customer signs a form that allows the bank to make deductions as necessary.

O. You do the opposite of what the bank does. To you, Bank is an asset but to the bank, your account is a liability. From the bank's perspective, a debit memo means a reduction of the money they owe you. From your perspective, if the bank owes you less money, you must credit your Bank account.

R. Businesses are also allowed to charge sales taxes.

S. It is the responsibility of the seller, by law, to do the accounting for sales tax.

T. The HST account is either a liability if we are referring to the HST Payable account or a contra liability if we are referring to the HST Recoverable account.

U. A contra account is not used in retail sales tax accounting. It is used in value-added tax accounting.

V. HST Recoverable is also part of the remittance entry. The amount of the remittance is the amount of HST Payable minus the amount of HST Recoverable. For example, if HST Payable is \$500 (credit balance) and HST Recoverable is \$200 (debit balance), the remittance is \$300. The remittance entry has two goals: record the cheque and clear off the related data in both HST accounts. Therefore, the remittance entry debits HST Payable (\$500), credits HST Recoverable (\$200), and credits Bank (\$300). The debits and credits to the HST accounts are the opposite of their balances, which brings those balances to zero for the reporting period.

CHAPTER 6 REVIEW EXERCISES (continued)**Exercise 4, p. 216**

- A. *The SaltShed received an HST refund because the company's purchases were greater than its sales in the first month, so HST Recoverable had a greater balance than HST Payable.*

- B. *HST Payable: $8000 \times 13\% = 1040$*

HST Recoverable: $1040 + 390 = 1430$

HST Payable is \$1040 and HST Recoverable is \$1430.

C.
$$\frac{13\%}{100\%} = \frac{1430}{P}$$

$$P = \frac{1430}{0.13}$$

$$P = 11\,000$$

Purchases in the first month were \$11 000.

- D. *No, Joshua should not hope to receive a HST refund cheque each time the business files a return. This would mean his purchases continue to be greater than his sales and his company is not earning a profit.*

CHAPTER 6 REVIEW EXERCISES (continued)**Comprehensive Exercises****Exercise 5, p. 217****GENERAL JOURNAL**

PAGE 7

DATE		PARTICULARS	P.R.	DEBIT				CREDIT			
²⁰⁻ Nov.	4	A/R—R. Chevrier		3	1	0	75				
		<i>Fees Earned</i>						2	7	5	—
		<i>HST Payable</i>						3	5	75	
		<i>Sales Invoice No. 571</i>									
	6	Photo Supplies		2	6	5	—				
		<i>HST Recoverable</i>		3	4	45					
		A/P—Black's Photo						2	9	9	45
		<i>Purchase of photo supplies</i>									
	9	Automobile Expense		1	7	5	—				
		<i>HST Recoverable</i>		2	2	75					
		A/P—Jack's Auto						1	9	7	75
		<i>Purchase of gasoline</i>									
	10	W. Siebert, Drawings		9	2	5	—				
		Bank						9	2	5	—
		<i>Cheque No. 652 for owner's own use</i>									
	12	Bank		1	6	3	85				
		<i>Fees Earned</i>						1	4	5	—
		<i>HST Payable</i>						1	8	85	
		<i>Cash Sales Slip No. 214</i>									
	15	Bank Charges Expense		3	5	50					
		Bank						3	5	50	
		<i>Commercial bank service charges</i>									
	22	Bank		4	1	2	—				
		A/R—H. Walker						4	1	2	—
		<i>Received on account, Remittance slip No. 312</i>									

CHAPTER 6 REVIEW EXERCISES (continued)

Exercise 5, p. 217 (continued)

GENERAL JOURNAL

DATE		PARTICULARS	P.R.	DEBIT				CREDIT			
²⁰⁻ Nov.	23	<i>W. Siebert, Drawings</i>			8	4	75				
		<i>Photo Supplies</i>							7	5	–
		<i>HST Recoverable*</i>								9	75
		<i>Owner took supplies for own use and eliminated the business's original claim for the HST paid</i>									
	25	<i>A/P—Black's Photo</i>			2	9	9	45			
		<i>Bank</i>							2	9	9
		<i>Cheque No. 653 on account</i>									45
	28	<i>Automobile Expense</i>			7	5	0	–			
		<i>HST Recoverable</i>				9	7	50			
		<i>A/P—Oakley Motors</i>							8	4	7
		<i>Body repairs</i>									50
		<i>*Since the photo supplies have been converted from business to personal use, the business no longer has the right to claim HST paid as HST Recoverable.</i>									

CHAPTER 6 REVIEW EXERCISES (continued)**Exercise 6A, p. 218****GENERAL JOURNAL**

PAGE 12

DATE		PARTICULARS	P.R.	DEBIT				CREDIT			
²⁰⁻ Oct.	2	Bank		1	7	2	33				
		Rental Revenue						1	5	2	50
		HST Payable						1	9	83	
		Cash sales slip No. 409									
	4	A/R—G. Fairbridge		5	5	0	88				
		Rental Revenue						4	8	7	50
		HST Payable						6	3	38	
		Sales invoice No. 410									
	5	Rental Tools and Equipment		3	1	5	—				
		HST Recoverable		4	0	95					
		A/P—Vulcan Machinery						3	5	5	95
		Hydraulic jack; purchase invoice No. 3062									
	8	A/P—Fair Supply Company		2	1	5	90				
		Bank						2	1	5	90
		Cheque No. 1475 on account									
	9	Bank		2	8	8	26				
		Rental Revenue						2	5	5	10
		HST Payable						3	3	16	
		Cash sales slip No. 411									
	11	Bank		4	0	2	20				
		A/R—P. Mathers						4	0	2	20
		Received on account; remittance slip No. 182									
	15	Utilities Expense		1	7	2	—				
		HST Recoverable		2	2	38					
		Bank						1	9	4	36
		Cheque No. 1476									

CHAPTER 6 REVIEW EXERCISES (continued)**Exercise 6A, p. 218** (continued)**GENERAL JOURNAL**

PAGE 13

DATE		PARTICULARS	P.R.	DEBIT					CREDIT					
²⁰⁻ Oct.	17	<i>Wages Expense</i>		2	5	1	2	-						
		<i>Bank</i>							2	1	5	2	-	
		<i>Cheque No. 1477</i>												
	17	<i>Bank</i>		1	0	1	7	-						
		<i>Rental Revenue</i>							9	0	0	-		
		<i>HST Payable</i>							1	1	7	-		
		<i>Cash sales slip No. 412</i>												
	18	<i>F. Mazur, Drawings</i>		1	3	5	0	-						
		<i>Bank</i>							1	3	5	0	-	
		<i>Cheque No. 1478 for personal use</i>												
	22	<i>Delivery Expense</i>		2	0	9	-							
		<i>HST Recoverable</i>			2	7	17							
		<i>A/P—Husky Repairs</i>							2	3	6	17		
		<i>Maintenance on the delivery truck</i>												
	24	<i>Bank Charges Expense</i>			4	2	50							
		<i>Bank</i>								4	2	50		
		<i>Debit memo for service charge</i>												
	29	<i>HST Payable</i>		8	5	2	-							
		<i>HST Recoverable</i>							3	4	0	-		
		<i>Bank</i>							5	1	2	-		
		<i>Cheque No. 1479 to the Receiver General for GST remittance</i>												

CHAPTER 6 REVIEW EXERCISES (continued)**Exercise 6B, p. 219****GENERAL JOURNAL**

PAGE 12

DATE		PARTICULARS	P.R.	DEBIT				CREDIT			
²⁰⁻ Oct.	2	Bank		1	7	0	81				
		Rental Revenue						1	5	2	50
		GST Payable								7	63
		PST Payable							1	0	68
		Cash sales slip No. 409									
	4	A/R—G. Fairbridge		5	4	6	01				
		Rental Revenue						4	8	7	50
		GST Payable							2	4	38
		PST Payable							3	4	13
		Sales invoice No. 410									
	5	Rental Tools and Equipment		3	3	7	05				
		GST Recoverable			1	5	75				
		A/P—Vulcan Machinery							3	5	80
		Hydraulic jack; purchase invoice No. 3062									
	8	A/P—Fair Supply Company		2	1	5	90				
		Bank							2	1	90
		Cheque No. 1475 on account									
	9	Bank		2	8	5	72				
		Rental Revenue							2	5	10
		GST Payable								1	76
		PST Payable								1	86
		Cash sales slip No. 411									
	11	Bank		4	0	2	20				
		A/R—P. Mathers							4	0	20
		Received on account; remittance slip No. 182									

CHAPTER 6 REVIEW EXERCISES (continued)**Exercise 6B, p. 219** (continued)**GENERAL JOURNAL**

PAGE 13

DATE		PARTICULARS	P.R.	DEBIT				CREDIT			
²⁰⁻ Oct.	15	<i>Utilities Expense</i>		1	7	2	-				
		<i>GST Recoverable</i>				8	60				
		<i>Bank</i>						1	8	0	60
		<i>Cheque No. 1476</i>									
	17	<i>Wages Expense</i>		2	5	1	2	-			
		<i>Bank</i>						2	5	1	2
		<i>Cheque No. 1477</i>									
	17	<i>Bank</i>		1	0	0	8	-			
		<i>Rental Revenue</i>						9	0	0	-
		<i>GST Payable</i>						4	5	-	
		<i>PST Payable</i>						6	3	-	
		<i>Cash sales slip No. 412</i>									
	18	<i>F. Mazur, Drawings</i>		1	3	5	0	-			
		<i>Bank</i>						1	3	5	0
		<i>Cheque No. 1478 for personal use</i>									
	22	<i>Delivery Expense</i>		2	0	9	-				
		<i>GST Recoverable</i>			1	0	45				
		<i>A/P—Husky Repairs</i>						2	1	9	45
		<i>Maintenance on the delivery truck</i>									
	24	<i>Bank Charges Expense</i>		4	2	50					
		<i>Bank</i>						4	2	50	
		<i>Debit memo for service charge</i>									
	29	<i>GST Payable</i>		3	2	7	69				
		<i>GST Recoverable</i>						1	3	0	77
		<i>Bank</i>						1	9	6	92
		<i>Cheque No. 1479 to the Receiver General for GST remittance</i>									

CHAPTER 6 REVIEW EXERCISES (continued)**Exercise 7A, p. 220****GENERAL JOURNAL**

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DATE		PARTICULARS	P.R.	DEBIT				CREDIT			
<i>Mar.</i> ²⁰⁻	2	<i>A/R—Mountain Distributors</i>		1	9	7	75				
		<i>Fees Revenue</i>						1	7	5	–
		<i>HST Payable</i>						2	2	8	75
		<i>Sales invoice No. 192</i>									
	4	<i>A/R—Old Fort Trading Co.</i>		3	3	9	–				
		<i>Fees Revenue</i>						3	0	0	–
		<i>HST Payable</i>						3	9	–	
		<i>Sales invoice No. 193</i>									
	4	<i>Car Expense</i>		5	1	5	–				
		<i>HST Recoverable</i>		6	6	95					
		<i>Bank</i>						5	8	1	95
		<i>Cheque No. 316 for car repairs</i>									
	6	<i>Utilities Expense</i>		4	6	5	–				
		<i>HST Recoverable</i>		6	0	45					
		<i>Bank</i>						5	2	5	45
		<i>Cheque No. 317</i>									
	10	<i>Equipment</i>		6	7	5	–				
		<i>HST Recoverable</i>		8	7	75					
		<i>A/P—C & C Equipment</i>						7	6	2	75
		<i>Metal drawing table; purchase invoice No. 1401</i>									
	10	<i>Art Supplies</i>		2	8	5	–				
		<i>GST Recoverable</i>		3	7	05					
		<i>Bank</i>						3	2	2	05
		<i>Cheque No. 318</i>									

CHAPTER 6 REVIEW EXERCISES (continued)**Exercise 7A, p. 220** (continued)**GENERAL JOURNAL**

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DATE		PARTICULARS	P.R.	DEBIT					CREDIT					
<i>Mar.</i> ²⁰⁻	13	<i>C. Ohashi, Drawings</i>		1	3	5	0	-						
		<i>Bank</i>							1	3	5	0	-	
		<i>Cheque No. 319 for personal use</i>												
	14	<i>A/R—Display Design Company</i>		2	8	8	15							
		<i>Fees Revenue</i>							2	5	5	-		
		<i>HST Payable</i>								3	3	15		
		<i>Sales invoice No. 194</i>												
	14	<i>Bank</i>		1	5	0	-							
		<i>A/R—Victor Schilling</i>							1	5	0	-		
		<i>Received on account; remittance slip No. 355</i>												
	17	<i>A/P—C & C Equipment</i>		7	6	2	75							
		<i>Bank</i>							7	6	2	75		
		<i>Cheque No. 320 for purchase invoice No. 1401</i>												
	19	<i>A/R—Scoville Sales</i>		2	6	5	55							
		<i>Fees Revenue</i>							2	3	5	-		
		<i>HST Payable</i>								3	0	55		
		<i>Sales invoice No. 195</i>												
	20	<i>Rent Expense</i>		1	6	7	5	-						
		<i>HST Recoverable</i>		2	1	7	75							
		<i>Bank</i>							1	8	9	2	75	
		<i>Cheque No. 321</i>												
	23	<i>Equipment</i>		2	1	5	-							
		<i>HST Recoverable</i>			2	7	95							
		<i>A/P—Loughery's Limited</i>							2	4	2	95		
		<i>Drafting and artist's equipment;</i>												
		<i>invoice No. 634</i>												

CHAPTER 6 REVIEW EXERCISES (continued)**Exercise 7B, p. 221****GENERAL JOURNAL**

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DATE		PARTICULARS	P.R.	DEBIT				CREDIT			
<i>Mar.</i> ²⁰⁻	2	<i>A/R—Mountain Distributors</i>		1	9	6	–				
		<i>Fees Revenue</i>						1	7	5	–
		<i>GST Payable</i>								8	75
		<i>PST Payable</i>						1	2	25	
		<i>Sales invoice No. 192</i>									
	4	<i>A/R—Old Fort Trading Co.</i>		3	3	6	–				
		<i>Fees Revenue</i>						3	0	0	–
		<i>GST Payable</i>								1	5
		<i>PST Payable</i>								2	1
		<i>Sales invoice No. 193</i>									
	4	<i>Car Expense</i>		5	1	5	–				
		<i>GST Recoverable</i>			2	5	75				
		<i>Bank</i>						5	4	0	75
		<i>Cheque No. 316 for car repairs</i>									
	6	<i>Utilities Expense</i>		4	6	5	–				
		<i>GST Recoverable</i>			2	3	25				
		<i>Bank</i>						4	8	8	25
		<i>Cheque No. 317</i>									
	10	<i>Equipment</i>		7	2	2	25				
		<i>GST Recoverable</i>			3	3	75				
		<i>A/P—C & C Equipment</i>						7	5	6	–
		<i>Metal drawing table; purchase invoice</i>									
		<i>No. 1401</i>									
	10	<i>Art Supplies</i>		3	0	4	95				
		<i>GST Recoverable</i>			1	4	25				
		<i>Bank</i>						3	1	9	20
		<i>Cheque No. 318</i>									

CHAPTER 6 REVIEW EXERCISES (continued)**Exercise 7B, p. 221** (continued)**GENERAL JOURNAL**

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DATE		PARTICULARS	P.R.	DEBIT					CREDIT					
<i>Mar.</i> ²⁰⁻	13	<i>C. Ohashi, Drawings</i>		1	3	5	0	-						
		<i>Bank</i>							1	3	5	0	-	
		<i>Cheque No. 319 for personal use</i>												
	14	<i>A/R—Display Design Company</i>		2	8	5	60							
		<i>Fees Revenue</i>							2	5	5	-		
		<i>GST Payable</i>								1	2	75		
		<i>PST Payable</i>								1	7	85		
		<i>Sales invoice No. 194</i>												
	14	<i>Bank</i>		1	5	0	-							
		<i>A/R—Victor Schilling</i>							1	5	0	-		
		<i>Received on account; remittance slip No. 355</i>												
	17	<i>A/P—C & C Equipment</i>		7	5	6	-							
		<i>Bank</i>							7	5	6	-		
		<i>Cheque No. 320 for purchase invoice No. 1401</i>												
	19	<i>A/R—Scoville Sales</i>		2	6	3	20							
		<i>Fees Revenue</i>							2	3	5	-		
		<i>GST Payable</i>								1	1	75		
		<i>PST Payable</i>								1	6	45		
		<i>Sales invoice No. 195</i>												
	20	<i>Rent Expense</i>		1	6	7	5	-						
		<i>GST Recoverable</i>				8	3	75						
		<i>Bank</i>							1	7	5	8	75	
		<i>Cheque No. 321</i>												
	23	<i>Equipment</i>		2	3	0	05							
		<i>GST Recoverable</i>				1	0	75						
		<i>A/P—Loughery's Limited</i>							2	4	0	80		
		<i>Drafting and artist's equipment; invoice 634</i>												

CHAPTER 6 REVIEW EXERCISES (continued)**Exercise 7B, p. 221** (continued)**GENERAL JOURNAL**

PAGE 38

DATE		PARTICULARS	PR.	DEBIT				CREDIT			
<i>Mar.</i> ²⁰⁻	25	<i>Telephone Expense</i>		1	2	8	50				
		<i>GST Recoverable</i>				6	43				
		<i>Bank</i>						1	3	4	93
		<i>Electronic payment; confirmation No. 56255</i>									
	27	<i>Car Expense</i>		2	4	7	1	40			
		<i>GST Recoverable</i>		1	2	3	57				
		<i>A/P—Roger's Body Shop</i>						2	5	9	4
		<i>Invoice No. 3375 for repairs after accident</i>									
	31	<i>Bank</i>		3	0	0	–				
		<i>A/R—Old Fort Trading Co.</i>						3	0	0	–
		<i>Remittance slip No. 356</i>									

Questions for Further Thought, p. 223

- Three jobs in a secondary school that might carry the right to make purchases could include the school librarian, department heads, and the principal.*
- A source document is a business paper, such as a cash receipt, that is the original record of a transaction. It is the source of the information needed to account for the transaction.*
- An example of a transaction which has no source document would be when supplies are damaged and have to be thrown out.*
- It is true that assets will be understated on the balance sheet if their market value rises, which will make the balance sheet misleading. However, the cost principle states that assets are recorded at their cost price at the time of purchase. It is considered acceptable to avoid stating the market value of long-term assets because they are necessary for the operation of the business and will not be sold in the short term. To make balance sheets more relevant, the IFRS allows assets to be stated at their fair market value in some situations.*
- When cash sales slips are spoiled, the word Void should be written on all copies of the cash sales slips. Then they should be filed in sequence with the unspoiled cash sales slips so there is a clear record of all the cash sales slips and no gaps in the numbering.*

CHAPTER 6 REVIEW EXERCISES (continued)**Questions for Further Thought, p. 223** (continued)

6. *To the vendor who issues it, the invoice is a sales invoice but to the purchaser who receives it, the invoice is a purchase invoice.*
7. *The invoice numbers on purchase invoices cannot be used for control purposes by the buyer because the invoices come from many different companies which all use different numbering systems. There is no way to put them in numeric order to keep track of them.*
8. *The person who handles the cash receipts is not normally an employee in the accounting department who also acts as a control measure to prevent fraud. If one person did both tasks, it would be easy to steal cheques and falsify the accounting records to cover up the theft.*
9. *A bank issues a debit memo when it decreases your bank account because, to the bank, your balance is an account payable since the bank owes you the money you have deposited. Accounts payable are decreased by debits and increased by credits.*
10. *A minor point can be conceded that remitting sales tax before it is received from the customer is unfair because the remitting business is giving up its own cash to the government for a short time. On balance, however, the amount is insignificant. In addition, each month the business has temporary use of cash that rightfully belongs to the government. This is because there is a time lag between when cash sales are made and when they are subsequently remitted to the government.*
11. *For the \$337.05 amount, the PST was calculated on the amount including GST, \$315, not the original sale amount of \$300.*
 $300.00 \times 1.05 = 315$ then $315.00 \times 1.07 = 337.05$
For the \$336.00 result, both taxes were calculated on the original sale amount of \$300 and then added to it.
 $300 \times 0.07 = 21$ and $300 \times 0.05 = 15$ then $300 + 21 + 15 = 336.00$
Prince Edward Island and Quebec use a calculation method where PST (QST in Quebec) is calculated on the amount including GST.

Cases for Further Thought, p. 223

1. *You could verify the cost of the new truck by contacting the company that sold the truck and requesting a duplicate receipt for the transaction.*
2. *Fred should record the equipment at the cost price of \$18 000 since that is what he paid for it. This is in accordance with the cost principle. If the business is reporting using IFRS, an argument can be made for listing the truck at \$22 000 since this amount more closely reflects market value.*

CHAPTER 6 REVIEW EXERCISES (continued)**Cases for Further Thought, p. 223** (continued)

3. *A company could earn a profit and still have long-term cash problems if the owner withdrew more money than the company could afford to give up. Another cause could be that the company's management invested more in property or equipment than the company could afford.*
4. *Colossimo Company ordered the van on March 19 but did not pay for it. The company should record the transaction in its books on July 31, once it receives and pays for the van.*
5. *This is not the proper way to account for the value of the vehicle. Sarah should get an independent assessment of the fair market value of the automobile in writing and use that as evidence of the transaction.*

CASE STUDIES (page 224)**Case I** Generous to a Fault? (p. 224)

1. *In terms of financial results, R.C. has been a good businessperson. A central issue to consider is whether his successful results have been enhanced by tactics that could be considered unethical.*
2. *Opinions will vary. Certainly, private businesspeople exchange favours on a regular basis and do so without criticism. They are merely the perks of doing business. R.C., however, deals with government departments who operate with public dollars and who are rightfully open to public scrutiny. Typically, the awarding of government contracts is an open process where fairness is paramount. R.C.'s favours and gestures can be construed as bribery; those receiving them could be charged with using their public positions to gain illegal kickbacks and unfair benefits.*
3. *R.C.'s seems to be less gracious with his employees than he is with government officials. Perhaps his attitude with employees is somewhat old fashioned. Modern businesses find that providing employees with an assortment of perks builds loyalty, promotes longevity of service, and increases productivity.*
4. *No, R.C.'s claim that there are no strings attached to his gifts is not believable. He has become prosperous because of the government contracts he got in the past, so it is reasonable that he would expect more contracts in the future in exchange for his gifts. It is also to the government employees' advantage to award R.C. more contracts because it will gain them more perks.*

CASE STUDIES (continued)**Case 1** *Generous to a Fault?* (continued)

5. *By extending extreme generosity to government officials for government road repair contracts, R.C. got more work than his competitors. This allowed him to earn more money and expand his business until he had the largest company in the province. Now he has a monopoly on the road repair business, so almost all of the new contracts go to him because no one else can do the work with the same economies of scale.*
6. *The company is likely claiming the amounts spent on meals, hockey tickets, and so on as expenses. These expenses will lower the company's net income and thus its income tax bill. In a sense, the government and its taxpayers are subsidizing R.C.'s extravagance. Also, government officials are gaining financial benefits as a direct result of their employment, yet these benefits are not being included on their tax returns. Once again, the public purse suffers as a result.*
7. *Answers will vary. Students should weigh the advantages and disadvantages of taking the hockey tickets from R.C., including the possible damage to their professional reputation and legal charges if they are caught accepting a bribe. However, if most government officials in the city are receiving R.C.'s gifts, not taking the bribe could also threaten their employment opportunities.*

Case 2: Group Discussion *Is a Profit Always a Profit?* (p. 225)

1. *Marjorie earned a \$120 000 profit on the sale of the recreational property purchased in 2008.*

<i>Profit</i>	<i>\$120 000</i>
<i>Tax at 20%</i>	<i>24 000</i>
<i>Net Profit</i>	<i>\$ 96 000</i>

The tax on the profit was \$24 000 and the profit after tax was \$96 000.

3. *Marjorie had \$296 000 free cash available as a result of the property transaction (\$320 000 less \$24 000 tax).*

4. *The money that Marjorie has available and the cost of the boat are presented in the table below.*

	<i>2008</i>	<i>2011</i>
<i>Money available</i>	<i>\$200 000</i>	<i>\$296 000</i>
<i>Cost of boat</i>	<i>200 000</i>	<i>296 000</i>

The table shows clearly that Marjorie is in no better position to buy the boat now than she was in 2008.

CASE STUDIES (continued)**Case 2: Group Discussion** *Is a Profit Always a Profit?* (continued)

5. *Marjorie is in no better position in 2011 to buy the Tarzan 10 than she was in 2008. The amount of cash she has on hand is the same as the price of the sailboat in each case. In terms of purchasing power she is no better off and therefore has not really made a profit.*
6. *The increase in the value of the property and the boat over time is called inflation.*
7. *Yes, Marjorie's book profit could be called a paper profit. After the 20% tax on capital gains and the rate of inflation are taken into account, she does not have any more purchasing power than she did in 2008. It only looks like a profit in the books.*

CAREER**James Robertson/Sole Proprietor,
Robertson Mechanical** (page 226)**Discussion (p. 226)**

1. *James Robertson operates a sole proprietorship. He is a plumber and a gas technician.*
2. *Advantages of being a sole proprietor include making your own decisions and not having to share the profits. Disadvantages include working long hours and not having anyone else to depend on for help.*
3. *James's operating expenses could include plumbing supplies such as pipes and hardware, gasoline, vehicle repair, office supplies, and possibly storage of materials.*
4. *Even if you are not involved in the detailed accounting of your business, taking a business course will help you understand how a business is run. You will better understand the rules and regulations governing businesses and what a bookkeeper or accountant is doing for you.*