

Unit 15 - Sales and Goods and Services Tax

THE BACKGROUND

The companies which sell taxable items become, by law, agents for the government for the collection of sales tax.

A customer pays sales tax to a company and the company sends the money to the government.

Manufacturers, wholesalers, and most retailers are required to register with the federal gov't to collect the national Goods and Services Tax.

Retailers are to register with their province and receive a provincial sales tax license.

The Federal Goods and Services Tax

The Goods and Services Tax (GST) is a 5% tax charged on most sales of services or merchandise made within Canada.

A number of items such as basic groceries, prescription drugs, health and dental services are exempt for free from GST.

GST is collected by the business which has registered with Revenue Canada to collect taxes (see pa. 361 and 362)

How Does the GST Work?

A product can be bought and sold by several businesses before you the consumer actually purchases the item.

Each of the business must add 7% GST to the selling price but the federal government only receives 7%of the final sales price.

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follow the mountain bike through each step and see how the GST system actually works:

	Sale Price	GST Collected	GST Input Tax Credit	Amount Remitted
Materials Sold to Manufacturer	\$100	\$ 7	\$ 0	\$ 7
Mountain Bike Sold to Wholesaler	\$400	\$28	(\$7)	\$21
Mountain Bike Sold to Retailer	\$500	\$35	(\$28)	\$ 7
Mountain Bike Sold to Customer	\$700	\$49	(\$35)	<u>\$14</u>
Total GST Remitted to Federal Government				<u>\$49</u>

In the example shown above, the retailer sold the mountain bike for \$700 plus \$49 Goods and Services Tax. The retailer, however, sent

Provincial Retail Sales Tax (PST)

All provinces except Alberta have a provincial sales tax. Such items as food, drugs, children's clothes, school supplies, and farm equipment are exempt from sales tax in many provinces.

A retailer who sells taxable items is required by law to collect the provincial retail sales tax. The remittance to the gov't is usually done monthly.

https://en.wikipedia.org/wiki/Sales_taxes_in_Canada

Provincial Sales Tax Exemptions

When you make a purchase and the material is a raw material. This means that you are taking this product and making something out of it. Ex. Paper for greeting cards. You would be exempt from paying taxes of the roll of paper but the final buyer the consumer would pay sales tax on the greeting card created from the roll of paper.

Calculating GST and Retail Sales Tax (PST)

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Calculation of GST and PST

Mountain Bike Selling Price (Base price)	\$700.00
Goods and Services Tax ($0.07 \times \$700$)	<u>49.00</u>
	749.00
Provincial Sales Tax ($0.08 \times \$700$)	<u>56.00</u>
Final Price to Customer	<u>\$805.00</u>

This method of calculating sales tax eliminates the payment of tax on tax since both GST and PST are calculated as a percentage of the base price.

Some provinces calculate PST as a percentage of the base price plus GST. Using the example above, the new figures are:

Calculation of GST and PST

Mountain Bike Selling Price (Base price)	\$700.00
Goods and Services Tax ($0.07 \times \$700$)	<u>49.00</u>
	749.00
Provincial Sales Tax ($0.08 \times \$749$)	<u>59.92</u>
Final Price to Customer	<u>\$808.92</u>

At the time of writing, B.C., Sask, Manitoba, and Ontario calculate PST on base price only while the other provinces calculate PST on base price plus GST

GST and PST Payable Accounts

AS a retailer, you are responsible for collecting both the GST and PST from customers. The accounting system must include the accounts necessary to record both GST collected from customers and GST paid to suppliers in order to calculate the correct amount to remit to the federal gov't (GST collected - GST paid). An account will be necessary to collect the PST as well

Only three new accounts will be needed to do this. **PST Payable, GST Payable, and GST Refundable.**

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$$\begin{array}{rcl} \text{GST Collected} & - & \text{GST Paid} & = & \text{Net GST Owed} \\ \text{GST Payable} & - & \text{GST Refundable} & = & \text{GST Due to Federal Government} \end{array}$$

How would Warrendon Sports record the sale of the mountain bike in the previous example? The selling price was \$700, the GST at 7 per cent was \$49, and the PST was \$56 calculated on the base price. The customer paid a total of \$805 cash for the bike. Warrendon would record the following journal entry:

Jan. 18	Cash	805	
	Sales		700
	GST Payable		49
	PST Payable		56
	Cash sale of bike.		

PST Payable
The amount of sales tax collected is owed to the provincial government. The sales tax collected during the month is credited in the PST Payable (or Sales Tax Payable) account. This account is a liability. It increases when taxable goods are sold and taxes are collected. It decreases when the seller of taxable goods sends the tax to the

PST Payable account is a liability account.

PST Payable

The amount of sales tax collected is owed to the provincial gov't. The sales tax collected during the month is credited in the PST Payable account. This account is a **liability**. It increases when taxable goods are sold and taxes are collected. It decreases when the seller of taxable goods sends the tax to the provincial gov't.

See page 369 for example

Recording Sales Tax Commission

Several provinces pay commissions to companies in return for the collection of sales tax. See pg. 369 for examples

The commission earned by a company is usually recorded in an account entitled Miscellaneous Revenue or Sales Tax Commission

On tax amounts over \$400, the retailer receives 5 per cent of the tax remitted (see line 7, "Compensation," in Figure 7-16 on page 365. A maximum of \$1 500 is available in any one year.

The commission earned by a company is usually recorded in an account entitled Miscellaneous Revenue or Sales Tax Commission.

On June 15, Western Supply Ltd. of Vancouver, British Columbia, has a balance of \$300 in its PST Payable account. This balance represents retail tax collected from customers in May. When Western Supply remits the tax to the provincial government, it keeps a 3 per cent commission of \$9 ($0.03 \times 300 = 9$). The entry, in General Journal form, to record the payment to the government and the commission earned is:

Jun. 15	PST Payable	300	
	Cash		291
	Sales Tax Commission		9
	To remit May sales tax and to record commission earned.		

GST Payable
The amount of goods and services tax collected is also a liability. It is owed to the federal government. The amount of GST collected during the month is credited to the GST Payable account.

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GST Payable

The amount of goods and services tax collected is also a liability. It is owed to the federal government. The amount of GST collected during the month is credited to the GST Payable account.

The retailer remits GST collected *minus* GST paid.

GST Input Tax Credit

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What is the amount recorded in the Purchases account? The \$500 cost price. Why is the \$35 GST not recorded as part of the cost price? As you learned earlier, the retailer deducts the GST paid to suppliers from the GST collected from the consumer before remitting the tax to the federal government. Therefore, Warrendon receives an input tax credit for the \$35 GST paid to Mountain Bike Limited. How will Warrendon record the invoice shown in Figure 7-18? The journal entry will be:

Jan. 1	Purchases	500.00	
	GST Refundable	35.00	
	Cash		535.00
	Cash purchase of mountain bike.		

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

GST Refundable	
Jan. 1	35.00
4	28.00
8	42.00
9	14.00
11	63.00

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Jan. 31	GST Payable	1 426.10	
	GST Refundable		980.63
	Cash		445.47
	January GST remitted.		

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

Recording GST for a Service Business
 The Goods and Services Tax also applies to services sold and purchased. A service business would follow the same basic accounting the

Recording GST for a Service Business

It is done the same way that it was done for a merchandising business

Optional GST System for Small Business

Small business has an option to use a "quick method" of collecting GST. Businesses eligible to use this method are determined by their total sales. See pg. 373

GST, PST, and Cash Discount

Terms 2/10, n/30 on 575.00 500 purchase, 75 taxes, 2% of the 575.00 or 11.50