Test Bank for Accounting Principles Canadian 10th Edition by Weygandt, Kimmel, Mitchell, Warren, Novak

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***Accounting Principles, 10Ce* (Weygandt)**
Appendix B: Sales Tax

B.2 Exercises

1) For the following provinces: New Brunswick, Newfoundland, Alberta, British Columbia, Yukon, identify which sales tax or taxes they charge.
Answer:

New Brunswick	HST
Newfoundland	HST
Alberta	GST
British Columbia	GST and PST
Yukon	GST

Diff: 1
Bloomcode: Knowledge
Learning Objective: Explain the different types of sales tax.
Section Reference: Types of Sales Taxes
CPA: Financial Reporting
AACSB: Analytic

2) For the following provinces: Nunavut, Manitoba, Ontario, Prince Edward Island, Saskatchewan, identify which sales tax or taxes they charge.
Answer:

Nunavut	GST
Manitoba	GST and PST
Ontario	HST
Prince Edward Island	HST
Saskatchewan	GST and PST

Diff: 1
Bloomcode: Knowledge
Learning Objective: Explain the different types of sales tax.
Section Reference: Types of Sales Taxes
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3) Identify the three types of sales taxes and to whom the remittance must be made.
Answer: There are three types of sales taxes:
1) Goods and services tax (GST)
2) Provincial sales tax (PST)
3) Harmonized sales tax (HST)

GST and HST are remitted to the Receiver General for Canada, which is the collection agent for the federal government (and in the case of HST also the provincial government). PST is remitted to the Minister of Finance in the applicable province.
Diff: 1
Bloomcode: Knowledge
Learning Objective: Explain the different types of sales tax.
Section Reference: Types of Sales Taxes
CPA: Financial Reporting
AACSB: Analytic

4) Here is a list of some typical goods and services:

Office supplies
Ready-to-eat pizza
One dozen doughnuts
Prescription drugs
Uncooked pizza
Municipal water

Instructions
For each item on the list, identify its GST/HST tax status as taxable, zero-rated, or exempt.
Answer: Office supplies — taxable
Ready-to-eat pizza — taxable
One dozen doughnuts — zero-rated
Prescription drugs — zero-rated
Uncooked pizza — zero-rated
Municipal water — exempt
Diff: 1
Bloomcode: Knowledge
Learning Objective: Explain the different types of sales tax.
Section Reference: Types of Sales Taxes
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5) Here is a list of some typical goods and services:

Banking services
Dental services
Building materials
Uncooked pizza
Prescription drugs

Instructions
For each item on the list, identify its GST/HST tax status as taxable, zero-rated, or exempt.
Answer: Banking services — exempt
Dental services — exempt
Building materials — taxable
Uncooked pizza — zero-rated
Prescription drugs — zero-rated
Diff: 1
Bloomcode: Knowledge
Learning Objective: Explain the different types of sales tax.
Section Reference: Types of Sales Taxes
CPA: Financial Reporting
AACSB: Analytic

6) Hair Beauty is a new salon located in Winnipeg, Manitoba. The following information relates to transactions that took place in June. Hair Beauty uses a perpetual inventory system and uses the earnings approach for revenue recognition.

June	3	In the salon, $500 worth of hair services were performed for cash. These services are subject to PST of 7% and GST.
	4	A sale of $100 worth of products is made on account to Hillary King. The cost of the product to Hair Beauty was $85.
	10	Hillary King returned $25 worth of product. This product had a cost of $15 and was returned to goods for resale.
	30	Hillary King paid her outstanding balance.

Instructions

Prepare the journal entries to record these transactions.

Answer:

June 3	Cash	560	
	Service Revenue		500
	PST Payable ($500 × 7%)		35
	GST Payable ($500 × 5%)		25
4	Accounts Receivable	112	
	Sales		100
	PST Payable ($100 × 7%)		7
	GST Payable ($100 × 5%)		5
	Cost of Goods Sold	85	
	Merchandise Inventory		85
10	Sales Returns and Allowances	25.00	
	PST Payable ($25 × 7%)	1.75	
	GST Payable ($25 × 5%)	1.25	
	Accounts Receivable		28.00
	Merchandise Inventory	15	
	Cost of Goods Sold		15
30	Cash ($112.00 - $28.00)	84	
	Accounts Receivable		84

Diff: 2
Bloomcode: Application
Learning Objective: Record sales taxes collected by businesses on good and services.
Section Reference: Sales Taxes Collected on Receipts
CPA: Financial Reporting
AACSB: Analytic

7) The following information relates to transactions that took place in April for Trip n Trail Inc. Trip n Trail is located in Trail, BC, uses a perpetual inventory system, and uses the earnings approach for revenue recognition.

Apr.	2	In the shop, a total of $1,500 worth of backpack repair services were performed for cash. These services are subject to PST of 7% and GST.
	6	Sales of $12,000 worth of camping-related merchandise were made on account to Trips R Us. The cost of the products to Trip was $8,500.
	12	A return of $2,500 worth of products received from Trips R Us as they ordered an incorrect pack size. This product had a cost of $1,500 and was returned to goods available for sale.
	30	Trips R Us settles their outstanding balance.

Instructions

Prepare the journal entries to record these transactions.

Answer:

Date	Account	Debit	Credit
Apr. 2	Cash	1,680	
	Service Revenue		1,500
	PST Payable ($1,500 × 7%)		105
	GST Payable ($1,500 × 5%)		75
6	Accounts Receivable	13,440	
	Sales		12,000
	PST Payable ($12,000 × 7%)		840
	GST Payable ($12,000 × 5%)		600
	Cost of Goods Sold	8,500	
	Merchandise Inventory		8,500
12	Sales Returns and Allowances	2,500	
	PST Payable ($2,500 × 7%)	175	
	GST Payable ($2,500 × 5%)	125	
	Accounts Receivable		2,800
	Merchandise Inventory	1,500	
	Cost of Goods Sold		1,500
30	Cash ($13,440 - $2,800)	10,640	
	Accounts Receivable		10,640

Diff: 2

Bloomcode: Application

Learning Objective: Record sales taxes collected by businesses on good and services.

Section Reference: Sales Taxes Collected on Receipts

CPA: Financial Reporting

AACSB: Analytic

8) Hair Beauty is a new salon located in Saint John, New Brunswick. The following information relates to transactions that took place in June. Hair Beauty uses a perpetual inventory system and uses the earnings approach for revenue recognition.

June	3	In the salon, $500 worth of hair services were performed for cash. These service are subject to HST of 15%.
	4	A sale of $100 worth of products is made on account to Hillary King. The cost of the product to Hair Beauty was $85.
	10	Hillary King returned $25 worth of product. This product had a cost of $15 and was returned to goods available for sale.
	30	Hillary King paid his outstanding balance.

Instructions

Prepare the journal entries to record these transactions.

Answer:

June 3	Cash	575	
	Service Revenue		500
	HST Payable ($500 × 15%)		75
4	Accounts Receivable	115	
	Sales		100
	HST Payable ($100 × 15%)		15
	Cost of Goods Sold	85	
	Merchandise Inventory		85
10	Sales Returns and Allowances	25.00	
	HST Payable ($25 × 15%)	3.75	
	Accounts Receivable		28.75
	Merchandise Inventory	15	
	Cost of Goods Sold		15
30	Cash ($115.00 - $28.75)	86.25	
	Accounts Receivable		86.25

Diff: 2

Bloomcode: Application

Learning Objective: Record sales taxes collected by businesses on good and services.

Section Reference: Sales Taxes Collected on Receipts

CPA: Financial Reporting

AACSB: Analytic

9) The following information relates to transactions that took place in April for Trip n Trail Inc. Trip n Trail is located in Fort Erie, Ontario, uses a perpetual inventory system, and uses the earnings approach for revenue recognition.

April 2 In the shop a total of $1,500 worth of backpack repair services were performed for cash. These services are subject to HST of 13%.

6 Sales of $12,000 worth of camping-related merchandise were made on account to Trips R Us. The cost of the products to Trip was $8,500.

12 A return of $2,500 worth of products received from Trips R Us as they ordered an incorrect pack size. This product had a cost of $1,500 and was returned to goods available for sale.

30 Trips R Us settles their outstanding balance.

Instructions

Prepare the journal entries to record these transactions.

Answer:

Apr. 2	Cash	1,695	
	Service Revenue		1,500
	HST Payable ($1500 × 13%)		195
6	Accounts Receivable	13,560	
	Sales		12,000
	HST Payable ($12,000 × 13%)		1,560
	Cost of Goods Sold	8,500	
	Merchandise Inventory		8,500
12	Sales Returns and Allowances	2500	
	HST Payable ($2,500 × 13%)	325	
	Accounts Receivable		2,825
	Merchandise Inventory	1,500	
	Cost of Goods Sold		1,500
30	Cash ($13,560 - $2,825)	10,735	
	Accounts Receivable		10,735

Diff: 2

Bloomcode: Application

Learning Objective: Record sales taxes collected by businesses on good and services.

Section Reference: Sales Taxes Collected on Receipts

CPA: Financial Reporting

AACSB: Analytic

10) Great Green Landscaping sells lawn maintenance equipment. They use a perpetual inventory system and their operations are located in Manitoba. The Manitoba PST rate is 7%. The following transactions took place in May:

May	6	Purchased 350 trimmers for resale at $100 each before taxes from Trim It with terms 2/10, net 30, FOB shipping point.
	16	Returned two of the trimmers as they were defective.
	22	Picked up $250 worth of supplies to be used in the sales office and paid with cash.
	31	Purchased two desks to be used in the sales office on account for $450, plus applicable taxes.

Instructions

Prepare the journal entries to record these transactions.

Answer:

May 6	Merchandise Inventory (350 × $100)	35,000	
	GST Recoverable ($35,000 × 5%)	1,750	
	Accounts Payable		36,750
16	Accounts Payable	210	
	GST Recoverable ($200 × 5%)		10
	Merchandise Inventory		200
22	Supplies ($250 + $17.50 PST)	267.50	
	GST Recoverable ($250 × 5%)	12.50	
	Cash		280.00
31	Furniture ($450 + $31.50 PST)	481.50	
	GST Recoverable ($450 × 5%)	22.50	
	Accounts Payable		504.00

Diff: 2

Bloomcode: Application

Learning Objective: Record sales taxes paid on the purchase of goods and services.

Section Reference: Sales Taxes Paid on Payments

CPA: Financial Reporting

AACSB: Analytic

11) Courts Plus sells tennis equipment. They have a perpetual inventory system and their store is located in Ontario with an HST rate of 13%. The following transactions took place in April:

April	6	With terms 2/10, net 30, FOB shipping point Courts Plus purchased 350 racquets for resale at $120 each before taxes from Racquets Inc.
	16	As part of their spring-cleaning efforts, the owner picked up $400 worth of cleaning supplies and paid using company cash.
	22	Due to defects, Courts returned two racquets.
	30	Purchased one new display unit on account for $500, plus applicable taxes.

Instructions

Prepare the journal entries to record these transactions.

Answer:

April 6	Merchandise Inventory (350 × $120)	42,000	
	HST Recoverable ($42,000 × 13%)	5,460	
	Accounts Payable		47,460
16	Supplies	400	
	HST Recoverable ($400 × 13%)	52	
	Cash		452
22	Accounts Payable	231.20	
	HST Recoverable ($240 × 13%)		31.20
	Merchandise Inventory		200.00
30	Furniture	500	
	HST Recoverable ($500 × 13%)	65	
	Accounts Payable		565

Diff: 2

Bloomcode: Application

Learning Objective: Record sales taxes paid on the purchase of goods and services.

Section Reference: Sales Taxes Paid on Payments

CPA: Financial Reporting

AACSB: Analytic

12) Décor Plus sells home accessories and other decorating supplies. They have a perpetual inventory system and their business is located in British Columbia. BC's PST rate is 7%. The following transactions took place in May:

May	6	A batch of 250 decorative vases were purchased for resale at $50 each before taxes from Bright Lights Ltd. with terms 2/10, net 30, FOB shipping point.
	16	Returned six of the vases as they were damaged in their packaging.
	22	Picked up $100 worth of supplies for the office and paid with cash.
	31	Purchased a display case for the store on account for $600, plus applicable taxes.

Instructions

Prepare the journal entries to record these transactions.

Answer:

May 6	Merchandise Inventory (250 × $50)	12,500	
	GST Recoverable ($12,500 × 5%)	625	
	Accounts Payable		13,125
16	Accounts Payable	315	
	GST Recoverable ($300 × 5%)		15
	Merchandise Inventory (6 × $50)		300
22	Supplies ($100 + $7 PST)	107	
	GST Recoverable ($100 × 5%)	5	
	Cash		112
31	Furniture ($600 + $42 PST)	642	
	GST Recoverable ($600 × 5%)	30	
	Accounts Payable		672

Diff: 2

Bloomcode: Application

Learning Objective: Record sales taxes paid on the purchase of goods and services.

Section Reference: Sales Taxes Paid on Payments

CPA: Financial Reporting

AACSB: Analytic

13) Hockey Hus sells hockey equipment. They have a perpetual inventory system and their store is located in Ontario with an HST rate of 13%. The following transactions took place in October:

Oct.	6	Hockey Hus purchased a skid of skates for $45,000 before taxes with terms 2/10, net 30, FOB shipping point from Zip Zag Inc.
	16	Paid $1,000 for cleaning supplies for the store.
	22	Due to defects in the blades, Hus returned five pairs of the skates for a credit of $2,000 before applicable taxes.
	31	Ashwin purchased on account an additional check-out counter for the store for $3,500, plus applicable taxes.

Instructions

Prepare the journal entries to record these transactions.

Answer:

Oct.	6	Merchandise Inventory	45,000	
		HST Recoverable ($45,000 × 13%)	5,850	
		Accounts Payable		50,850
	16	Supplies	1,000	
		HST Recoverable ($1,000 × 13%)	130	
		Cash		1130
	22	Accounts Payable	2,260	
		HST Recoverable ($200 × 13%)		260
		Merchandise Inventory		2,000
	31	Furniture	3,500	
		HST Recoverable ($3,500 × 13%)	455	
		Accounts Payable		3,955

Diff: 2

Bloomcode: Application

Learning Objective: Record sales taxes paid on the purchase of goods and services.

Section Reference: Sales Taxes Paid on Payments

CPA: Financial Reporting

AACSB: Analytic

14) Carousel Toys is located in Ontario with an HST rate of 13%. At the end of the quarter, Carousel Toys had the following balances in their HST accounts:

HST Recoverable	$12,000
HST Payable	20,000

Instructions
Prepare the journal entry or entries related to their HST filing.
Answer:

HST Payable	20,000	
HST Recoverable		12,000
Cash		8,000

Diff: 2
Bloomcode: Application
Learning Objective: Record the remittance of sales taxes.
Section Reference: Remittance of Sales Taxes
CPA: Financial Reporting
AACSB: Analytic

15) Online Gennie is located in Manitoba and at the end of the quarter Online Gennie had the following balances in their GST and PST accounts:

GST Recoverable	$48,000
GST Payable	80,000
PST Payable	30,000

Instructions
a) Prepare the journal entry or entries related to their GST filing.
b) Prepare the journal entry or entries related to their PST filing.
c) For each of the above, indicate to whom payment if any should be made.
Answer:
a)

GST Payable	80,000	
GST Recoverable		48,000
Cash		32,000

b)

PST Payable	30,000	
Cash		30,000

c) GST is payable to the Receiver General for Canada and the PST to the Minister of Finance for Manitoba.
Diff: 2
Bloomcode: Application
Learning Objective: Record the remittance of sales taxes.
Section Reference: Remittance of Sales Taxes
CPA: Financial Reporting
AACSB: Analytic