BOOKKEEPING GUIDE

An Accompanying Instruction Guide for Bookkeeping for Ontario Small Businesses

By

Carmen Wheeler
KATWO Consulting

GEDC Business Centre
www.gedc.ca
July 2022

Bookkeeping Guide - Table of Contents

Foreword

This Guide is designed to pick up where the Bookkeeping for Ontario Small Businesses booklet leaves off.

At this point, with the help of the booklet, you have decided on the accounting method and system that will be used in maintaining your financial books and, you have created the Chart of Accounts for your business that will guide the recording of all your financial transactions. This Guide provides technical instructions that will assist you in creating Financial Books using journals and ledgers needed for your business. Detailed and illustrative instructions are provided to show you how to source, analyze and enter financial transactions into your Books. Throughout your journey through this Guide, you will learn about the daily and monthly tasks involved in bookkeeping through to the Trial Balance.

Now continue to join me as I share the basics of what, where, when, why and how to show the money in manual bookkeeping.

Carmen Wheeler, MBA, LSSMB, RSW

CHAPTER 1 – INTRODUCTION

Using this Guide

This Bookkeeping Guide is intended as an entry level reference that is very illustrative as well as, easy to read and follow. Colours are used to identify **accounting terms**, **examples**, **activities/tasks**, important information, and **tips**. To promote practical understanding, explanations of accounting terms are provided. If more information is needed, please look up the actual term definition in a dictionary. Footnotes located at the bottom of pages provide additional information including links to informative websites. The instruction in one chapter is built on the instruction provided in previous chapters, therefore you should ensure that you spend sufficient time to grasp the instruction before moving on to the next chapter. There is a point in time when the concepts and processes click, coming together in sudden realization. This epiphany tends to happen more quickly when reading is not rushed beyond understanding material already read.

The instruction in this booklet will be based on the Accrual Method of bookkeeping using the Double-Entry System.

When using the instruction in this Bookkeeping Guide, **Owners who choose the Cash Method using the Double-Entry system need to replace the date used for the transaction in an example with the date money is paid out or received as applicable**.

Transactions **in the Cash Method** are recorded on the date the money is received (revenue) or paid (expenses), therefore **Accounts Receivables and Accounts Payables are not used**. The expectation with the Cash Method is that all invoices are paid on receipt by customers and by the business. When invoices and bills are not paid promptly in the Cash Method, it is necessary to track money owing to the business or bills to be paid by the business outside of and in addition to the Double-Entry bookkeeping system. Consequently, the Accounts Payable and Accounts Receivable Accounts only apply to the Accrual Method and Double-Entry System. Unless otherwise stated, besides needing to change the dates in examples, the instruction provided on the Double-Entry System can typically be applied to the Cash Method.

When following instruction in this Guide, unless otherwise instructed use the Accounts and Account Numbers from A2Z Consulting's Chart of Accounts from Example 3-6 below:

Example 3-6: A2Z Consulting Chart of Accounts

A2Z CONSULTING

CHART OF ACCOUNTS

ASSETS   1000 - 1999

Current Assets
1000 Bank Account Subgrouped (Do Not Use)
      1011 Cash Account
      1012 Retainer Account
1020 Money in Transit
1030 Accounts Receivable
1035 Allowance for Doubful Accounts *Contra*
1040 Prepaid Expenses

Long-Term Assets
1510 Computer Equipment
1511 Accumulated Depreciation Computer *Contra*
1520 Office Furniture & Equipment
1521 Accumulated Depreciation Office F & E *Contra*

LIABILITIES   2000 - 2999

Current Liabilities
2010 Accounts Payable
2020 HST Charged on Sales
2040 HST Paid on Purchases   *Contra*
2050 Prepaid Sales / Deposits
2060 Loan Payments - Current Year
Long-Term Liabilities
2500 Loan - Bank

EQUITY   3000 - 3999
3000 Owner's Contribution
3010 Owner's Drawings (Withdrawals) *Contra*
3020 Retained Earnings - Previous Year
3030 Current Period Earnings
3999 Income Summary Account

REVENUE   4000 - 4999
4010 Revenue - Training
4020 Revenue - Consulting
4030 Revenue - Interest
4040 Service Refunds   *Contra*
4999 Miscellaneous Revenue

EXPENSES   5000 - 5999
5010 Advertising
5020 Bad Debts
5030 Business License/Fees
5040 Credit Card Fees
5050 Depreciation Expense
5060 Income Tax Expense
5070 Insurance - Professional
5080 Interest & Bank/Clearinghouse Fees
5090 Meals & Entertainment
5100 Office Expenses
5200 Office Supplies
5300 Professional Fees
5310 Profession Membership Fees
5320 Subcontractor Fees
5330 Travel
5999 Miscellaneous Expenses

CHAPTER 2 – THE ACCOUNTING CYCLE

The accounting cycle comprises of eight steps as illustrated below.
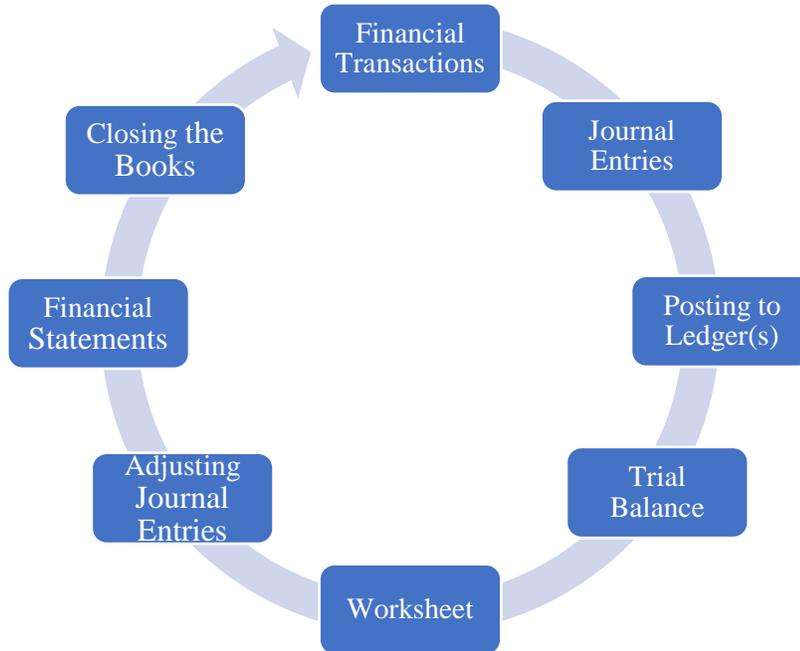
The remainder of this guide will cover the first four steps in the accounting cycle.

Recording financial transaction starts with examination of source documents.

CHAPTER 3 – SOURCE DOCUMENTS

Source Documents are **records that prove a financial transaction occurred**. In maintaining your books, you will need to ensure: (1) no financial transaction is recorded that does not have a proper source document, (2) source documents are accurately entered into the books and once this is done, (3) source documents are safely filed in a manner that can easily be retrieved when needed. If a source document has gone missing, try to have it replaced by the issuer. When replacement is not possible, create a form and write down all the information that can be remembered about the transaction (e.g., date, item, who and what was involved, etc.) then date and sign the form. This form becomes your source document. While there is no guarantee the transaction will pass a CRA Audit, recording transactions without source documents may prompt closer scrutiny of your books.

Types of Source Documents

- Bank Notes
- Bank Statements
- Cancelled Cheques
- Cash Register Receipts
- Contracts

- Credit Card Receipts
- Credit Card Statements
- Credit Memos
- Debit Card Slips
- Deposit Slips

- Invoices
- Payroll Reports
- Proof of sale/disposal of an Asset
- Purchase Orders

While source documents are typically a paper record of the transaction, sometimes they are permitted in electronic form as well (e.g., Word .docx , Excel .xlsx, .PDF, etc.). As an owner you need to be aware of the CRA's General Requirements for Books and Records.[1]

Source Documents should not be filed until the related transaction has been entered into the appropriate journal of original entry which will be covered in Chapter 5 – Journals.

The use of a "Posted" Stamp can help with managing your Source Documents. Typically, documents that are not stamped as shown in the example below indicate the transaction from the Source Document has not been entered into the books. Source Documents that do not have the posted stamp should not be filed until they are entered into the relevant journal.

Example 3-7:

---

[1] https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/15-1/general-requirements-books-records-revised-june-2005.html

CHAPTER 4 – ANALYZING FINANCIAL TRANSACTIONS

Identification and analysis of a financial transaction begins with obtaining information directly from its Source Document. A **Financial Transaction** has been introduced as having two value sides: **something of value is received and something of value is given**. If you used Appendix 4 to create your COA, you have already gained considerable knowledge identifying transactions. Detailed instruction and examples provided you with a method for identifying how value is received and given to create a transaction and, in identifying which Account receives value and which Account gives value. You would have also acquired experience applying this method to different types of transactions your business will experience when identifying Accounts that your business will use. In this section you will learn Step 1 of the Accounting Cycle, how to fully analyze financial transactions in preparation for Step 2, recording them into a Journal.

Totally put aside what you have learned about how debits and credits
affect the balance of your bank account as banking rules do __not__ apply to bookkeeping!

Debits and Credits

In accounting, *almost always*[2] **Debit** (**Dr**) is used to record **value flowing into an account** and a **Credit** (**Cr**) is used to record **value flowing out of an account**. Table 1 – Debits and Credits, (simply referred to as Table 1 going forward), below shows how Debits and Credits are used to increase or decrease the balances of the five Account Groups:

Table 1 – Debits and Credits

Account Group	Increase	Decrease
ASSETS	Debit	Credit
LIABILITIES	Credit	Debit
EQUITY	Credit	Debit
REVENUE	Credit	Debit
EXPENSE	Debit	Credit

For example, in recording a transaction which requires you to increase the balance of an Asset account, you will Debit the account by the required amount and when you need to decrease the balance of an Asset Account, you will Credit the account by the required amount.

T-Accounts

T-ACCOUNTS can be used when analyzing financial transactions to **illustrate the distribution of Debits and Credits**. They are particularly helpful when analyzing challenging transactions.

---

[2] Exception: **Contra Accounts** that are **treated opposite to the debit – credit rule of the Account Group**

As you will observe below, the Account Number and Name of the two Accounts involved in the transaction is written separately at the top of each T. The dollar amount of the transaction is written below either the Credit or Debit depending on the effect the transaction will have on the balance of the Account.

Account # & Name		Account # & Name	
Debit	Credit	Debit	Credit

Transaction Analysis Method (TAM)

Systematic analysis can be helpful in training your mind to adopt a method of analysis that in time will become second nature; you will automatically analyze transactions without thinking about the steps or needing to use T-Accounts until you come across a challenging transaction. To train your mind to perform the transaction analysis method, which will hereafter be referred to as "the TAM", it is recommended that you consistently follow each of the self-explanatory steps as shown in the order illustrated below:

1
Identify Value Given & Value Received

6
Record Transaction Date, Explanation & T-Account Information

7
Double-Entry Test
Confirm Debit(s) = Credits(s)

2
Identify the Amount details of the Transaction

5
Apply Table 1 - Debits & Credits to achieve the effect of Step 4

3
Identify Accounts involved from COA

4
Identify how the transaction affects the balance of each Account from Step 2

Now let's jump right in and start applying the TAM and Table 1 to a series of examples.
Example 4-1: Sale of Services on Credit

On January 15, 2022, Henry, the Owner of A2Z Consulting ("A2Z"), issues Invoice No.229 to Jim's Towing in the amount of $1,000 for Consulting Services. No HST was charged.

Henry identifies the two Accounts from A2Z's COA (p.7) that will be affected by this transaction. The account 4020 Revenue – Consulting(REVENUE) for the services provided (value given) and account 1030 Accounts Receivable(ASSETS) for monies owing to A2Z (value to be received).

Exercise: Try analyzing the above transaction using the TAM (p.11) and Table 1 (p.10). Perform your analysis on the worksheet provided below and then compare your analysis with the one provided.

Step 1:

Step 2:

Step 3:

Step 4:

Step 5:

Step 6:   Date of Transaction:
           Explanation:

Step 7:

Copy and continue to use the above worksheet when performing all your analysis.

Analysis:

Step 1: value given was consulting services and value received is the money to be received

Step 2: $1,000

Step 3: Account 4020 Revenue-Consulting(REVENUE) and Account 1030 Accounts Receivable(ASSET)

Step 4: the transaction will increase the balance of the Accounts Receivables by $1,000 for the money to be received and increase the balance of the Revenue-Consulting by $1,000 for services rendered

Step 5: to increase the balance of the ASSET accounts, debit Accounts Receivable for $1,000; and to increase the balance of the REVENUE account, credit Revenue – Consulting for $1,000

Step 6: Date of transaction: January 15, 2022
Explanation: Invoice No. 229 to Jim's Towing for Consulting Services provided on credit

1030 Accounts Receivable		4020 Revenue – Consulting Services	
Debit	Credit	Debit	Credit
$1,000.00			**$1,000.00**

Step 7: Debits = Credits passing double-entry test

Example 4-2: Payment Received on Account

On February 1, 2022 Jim's Towing sends A2Z Consulting $500 by electronic payment transfer directly into A2Z's Bank Account. The $500 is partial payment on account for Invoice No. 229 dated January 15, 2022 for consulting services.

Henry identifies the two Accounts from A2Z's COA that will be affected by this transaction. The 1011 Cash Account where the funds were transferred (value received) and the 1030 Accounts Receivable (credit value given).

Exercise: Using A2Z's COA (p.7), the TAM (p.11) and Table 1 (p.10) perform an analysis on the above transaction on a separate piece of paper. Use the layout of the worksheet from the preceding example in writing up your analysis. Once your analysis is completed, compare it to the one provided below.

Analysis:

Step 1: value given is a reduction in Accounts Receivable and the value received is money

Step 2: $500

Step 3: 1011 Cash Account(ASSET) and the 1030 Accounts Receivable(ASSET)

Step 4: the transaction will increase the 1011 Cash Account by $500 for the value received and decrease the 1030 Accounts Receivable by $500 for the value given

Step 5: to increase the balance of the Cash Account, debit it $500 and to increase the balance of the Accounts Receivable, credit it $500

Step 6:   Date of the transaction: February 1, 2022
          Explanation: Payment received from Jim's Towing on Account – Invoice No. 229

1011 Cash Account		1030 Accounts Receivable	
Debit	Credit	Debit	Credit
$500.00			**$500.00**

Step 7: Debits = Credits passing double-entry test

Example 4-3: Payment Received at Point of Sale

Upon completion of consulting services, Henry of A2Z provides Jim, the Owner of Jim's Towing, with Invoice No. 229, dated January 15, 2022 in the amount of $1,000. Jim immediately issues a non-certified cheque numbered 53 to the owner of A2Z in full payment of the invoice. A2Z Owner deposits the cheque in the bank night deposit on the way home from Jim's Towing.

Henry identifies the two Accounts from the COA (p.7) that will be affected by this transaction: 1020 Money in Transit(ASSET) and 4020 Revenue – Consulting(REVENUE). As mentioned earlier, funds that have been deposited in the bank should not be entered into a Cash Account until it has been processed by the bank; this way a business does not think t it has more money available than it has which could cause an overdraft of the bank account. Consider that it may take a while for the bank to clear the cheque. A Money in Transit Account(ASSET) is a method of internal control used to record messy transactions, hereby reducing risk. It exists so the company does not lose track of the money.

Exercise: Using A2Z's COA (p.7), the TAM (p.11) and Table 1 (p.7) perform an analysis on the above transaction on a separate piece of paper. When completed, compare your analysis with the one provided below.

Analysis:

Step 1: value received is the money received and the value given is Consulting Services

Step 2: $1,000

Step 3: ASSETS 1020 Money in Transit(ASSETS) and 4020 Revenue-Consulting(REVENUE)

Step 4: the transaction will increase the Money in Transit account by $1,000 and increase the Revenue – Consulting Account by $1,000

Step 5: to increase the balance of the Money in Transit account(ASSET) debit it $1,000 and to increase the balance of the Revenue-Consulting account (REVENUE) credit it $1,000

Step 6: Date of the transaction: January 15, 2022
Explanation: Cheque No. 53 received from Jim's Towing for Invoice No.229

1020 Money in Transit		4020 Revenue-Consulting	
Debit	Credit	Debit	Credit
$1,000.00			$1,000.00

Step 7: Debits = Credits passing double-entry test

Example 4-4: Cheque Payment Clears the Bank from Example 4-3

Bank Statement dated February 1 shows that cheque #53 in the amount of $1,000 payable to A2Z was deposited into A2Z's bank account on January 18, 2022.

Henry is away today and needs help with bookkeeping. Don't worry, he has confidence in you!

Exercise: Using A2Z's COA, the TAM and Table 1 perform an analysis on the above transaction on a separate piece of paper. When completed, compare your analysis to the one provided below.

Analysis:

Step 1: value received is the funds deposited and value given is the funds to be transferred out of the Money in Transit Account

Step 2: $1,000

Step 3: the transaction involves two ASSET accounts, the 1011 Cash Account and the 1020 Money in Transit Account.

Step 4: transaction requires the balance of the 1011 Cash Account be increased by $1,000 and the balance of the 1020 Money in Transit Account be decreased by $1,000

Step 5:   to increase the balance of the 1011 Cash Account debit it $1,000 and to decrease the balance of the 1020 Money in Transit Account credit it $1,000

Step 6:   Date of the transaction: February 1, 2022   *(for Cash Method is January 18, 2022)*
Explanation: Bank cleared Cheque No.53 from Jim's Towing

1011 Cash Account		1020 Money in Transit	
Debit	Credit	Debit	Credit
$1,000.00			**$1,000.00**

Step 7:   Debits = Credits passing double-entry test

Notes:

- the Bank Statement is the Source Document for this transaction

- If in Example 6-3 Jim had paid A2Z using a payment method that directly deposited into A2Z's Cash Account (e.g., cash payment that was deposited, e-transfer, debit card payment) it would eliminate the need for use of the Money in Transit Account and the transaction in Example 6-4. The Money in Transit Account is only used for items such as non-certified cheques and pending credit card receipts until the Bank or Credit Card Clearing house clears the cheque or credit card payment and the funds are deposited in the bank account.

The good news is that all financial transactions from source documents can be analyzed using the TAM you have just learnt! Now that you understand and have experience with this method, you are well equipped to analyze financial transactions involving two Accounts. Next, we are moving on to analysis of financial transactions involving three Accounts, in particular the Harmonized Sales Tax.

Well Done!

Harmonized Sales Tax[3]

Harmonized Sales Tax (HST), **currently** set at **13%**, must be charged on sales by businesses with annual revenue over a threshold set through the CRA.[4] If business revenues are consistently below the threshold, owners can decide whether or not to collect and remit HST. If HST is

---

[3] The information provided reflects the current tax rules applied by CRA on HST and Input Tax Credits which is subject to change.

[4] https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/gst-hst-businesses/when-register-charge.html

collected on sales, the business can claim **Input Tax Credits** (ITC) **for** the **HST paid on allowable business purchases**. Input Tax Credits (ITC) are applied against HST Charged on Sales, thereby **reducing the amount of HST payable** to the CRA. If the business paid more for HST on allowable purchases than it charged for HST on sales, the business would receive an HST Rebate. If the business charged more HST on sales than it paid for HST on allowable purchases, the business would remit the difference to the CRA.

Example 4-5: Quarterly Sales total $10,000 and the total HST (13%) charged on those sales is $1,300 (i.e., $10,000 x .13). During that same quarter the business also made allowable purchases totaling $3,000 and the total HST (13%) collected on those sales is $390.00(i.e. $390.00 x .13). When filing the business's HST claim the following offset occurs:

HST Charged on Sales:	$1,300.00
Less HST Paid on Purchases:	390.00
HST Payable to CRA:	$910.00

The business would owe $910.00 to CRA

Example 4-6: Quarterly Sales total $2,000 and the total HST (13%) charged on those sales is $260 (i.e., $2,000 x .13). During that same quarter the business paid for allowable purchases totaling $3,000 for which the total HST (13%) is $390 (i.e., $3,000 x .13). When filing the business's HST claim the following offset occurs:

HST Charged on Sales:	$260.00
Less HST Paid on Purchases:	309.00
HST Rebate payable by CRA:	$49.00

The business would receive an HST Rebate payment of $49.00.

The information needed from your financial books to calculate your HST return will be in your General Ledger Sheets and the Trial Balance, which will be covered in Chapters 6 and 8 respectively. The HST threshold and requirements, as well as information on how to register for filing HST returns, are located on the CRA website. The CRA will inform you of when you need to file HST Returns for your business. Instructions for completing and filing an HST Return are located on the CRA website address referenced at the bottom of this page[5].

Now that you understand how ITCs work, we will review transactions with HST.

---

[5] https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/gst-hst-businesses/complete-file-return.html

Debits and Credits and HST

Recall Step 3 in the TAM requires the identification of the Accounts involved. From now on when performing Step 3, consider whether the transaction involves a third account, HST Paid on Purchases *or* HST Charged on Sales.

First, an example of a purchase made by a business that does not collect or remit HST will be reviewed as follows:

Example 4-7: Purchase by a Business that Collect or Remit HST ?????

On January 15, 2022 Mia Smith, Owner of Smith Bookkeeping, purchases printer paper using the business's bank debit card. The paper cost $21.75 + $3.25 HST = $25.00. Annual sales revenue is below the CRA threshold and her business does not charge HST on sales.

Analysis:

Step 1: value given (money from bank account) and value received (printer paper)

Step 2: total transaction is for $25 *(because the ITC is not claimed only the total is needed)*

Step 3: 1000 Bank Account (ASSET) and 5200 Office Supplies (EXPENSE)

Step 4: the transaction will decrease the balance of the bank account and increase the balance of the Office Supplies Account

Step 5: to decrease the balance of the Bank Account credit it $25 and to increase the balance of Office Supplies debit it $25

Step 6: Date of Transaction: January 15, 2022

Explanation: Debit Card Purchase for Printer Paper. Receipt # 123

1000 Bank Account		5200 Office Supplies	
Debit	Credit	Debit	Credit
	$25	$25	

Step 7: Debits = Credits passing double-entry test

Observe from the above analysis that this transaction only involves two accounts. Next, an example of a similar purchase transaction that involves HST and the HST Paid on Purchases account (LIABILITIES) will be reviewed.

Example 4-8: Purchase by a Business that Charges HST on Sales

On January 15, 2022 Jane Doe, Owner of JD Consulting, purchases printer paper using the business's bank debit card. The paper cost $21.75 + $3.25 HST = $25.00. Annual sales revenue of JD Consulting exceed the CRA HST threshold so HST is charged on service fees.

Analysis:

Step 1: the value given money from bank account and the value received paper

Step 2: cost of the paper is $21.75 + $3.25 HST paid = $25.00

Step 3: 1000 Bank Account(ASSET), 2040 HST Paid on Purchases(LIABILITIES), and 5200 Office Supplies (EXPENSE)

Step 4: the transaction will decrease the balance of the Bank Account (value given), increase the balance of the Expense account (value received) and increase the balance of the HST Paid on Purchases Account for the amount of HST paid

Step 5: to decrease the balance of 1000 Bank Account credit it $25. To increase the balance of the 5200 Office Supplies debit it $21.75 for the price of the paper. To increase a liability account, Table 1 states it should be credited. Therefore, to increase the balance of the 2040 HST Paid on Purchase Account credits it $3.25. This brings up a problem in the T-Account being prepared for Step 6 – the entry as written will not pass the double-entry test because the total of credits is greater than the total debits:

1000 Bank Account		5200 Office Supplies		2040 HST Paid on Purchases**	
Debit	Credit	Debit	Credit	~~Debit~~	~~Credit~~
	$25	$21.75			~~$3.25~~

Debits must always equal Credits to pass the double-entry test. The entry is to debit HST Paid on Purchases so the debits ($21.75 + $3.25) will equal the total credit ($25)

Step 6: Date of Transaction: January 15, 2022
　　　　 Explanation: Debit Card Purchase for Printer Paper, Receipt #111

1000 Bank Account		5200 Office Supplies		2040 HST Paid on Purchases**	
Debit	Credit	Debit	Credit	Debit	Credit
	$25	$21.75		$3.25	

Step 7: Debits = Credits passing double-entry test

The reason Table 1 did not work as expected is because the HST Paid on Purchases is a "Contra Account".

Contra-Accounts**

A '**Contra**' Account **has the opposite effect than expected on the balance of the Account Group** and consequently, **requires the Account to be treated in the opposite manner than what normally would apply using Table 1 - Debits and Credits**.

Usually, an increase in Asset Accounts is expected to increase the overall balance of Assets owned by a business. An increase in Liabilities Accounts is expected to increase the overall balance of monies owed by the business. An increase in Equity Accounts is expected to increase the overall net worth of the business, an increase in a Revenue Account is expected to increase the overall money earned by the business, and an increase in an Expense Account is expected to increase the amount of expenses incurred to earn business revenue. Whereas Contra Accounts have the opposite effect of those just shared. More specifically, a Contra Asset Account (e.g., Allowance for Doubtful Accounts) reduces the amount of assets a business has, a Contra Liability Account (e.g., HST Paid on Purchases) reduces the amount of monies owed by the business, a Contra Equity Account (e.g., Owner's Withdrawals) reduces the net worth of the business, a Contra Revenue Account (e.g., Returns and Refunds) reduces the amount of revenues earned, and a Contra Expense Account (e.g., Purchase Returns) reduces the amount of expenses paid. All the examples just provided have the opposite effect intended by their respective account group.

When you come across a financial transaction that does not meet the double-entry test (i.e., Debits = Credits) when applying Table 1, *if an error has not been made in recording the transaction,* the transaction likely involves a Contra Account. Use your COA to compare the expected outcome of the account with other accounts included in its Account Group. You must determine if an account involved in the transaction is influencing the balance of Account Group in a different way than the majority of the other accounts within the group? *An Account Group can have more than one contra account so compare with the majority of the accounts within the group. The internet can be searched to confirm whether or not the Account is a contra account (e.g., simply search: "Is (name) account a contra account?")*

The examination of the HST Paid on Purchases that follows illustrates the anomaly of a Contra Account and the consequences of an incorrect entry. To reconfirm, Table 1 indicates that to increase the balance of a Liability Account it should be credited. Typically, an increase to a Liability Account will result in an overall increase in the balance of the LIABILITIES Account Group (the total amount owed by the business). Where a credit within other Liability Accounts would normally increase the balance of the money owed by the business, an increase to HST Paid on Purchases will actually reduce the balance of liabilities owed by the business.

Let's take a closer look at the effect on the balance of the LIABILITIES account and the related Input Tax Credits (ITCs) when the Contra-Liability 2021 HST Paid on Purchases account is incorrectly credited, and when it is correctly debited.

Example 4-9: HST Paid on Purchases Credit vs. Debit from Example 4-8

LIABILITIES (2000 – 2999)		Current Balance	X If Credited New Account Balance	✓ If Debited New Account Balance
2000	Accounts Payable	1,000	1,000	1,000
2010	Credit Card Payable	150	150	150
2020	HST Charged on Sales	130	130	130
2040	HST Paid on Purchases/ITCs*	-25	-25 + 3.25 = -21.75 the Credit reduces the account balance and ITCs instead of increasing as needed	-25 + - 3.25 = -28.25 the Debit increases the account balance and ITCs as needed
LIABILITIES BALANCE:		1,255	1,258.25	1,251.75

* This account reduces the balance of the account group so is shown with a minus sign

Observe the red column illustrating the result of crediting the Contra Account. The transaction would reduce the current amount of the HST Input Tax Credit from $25 to $21.75 instead of increasing the account balance and available ITCs as intended. A Credit transaction would result in the business losing $6.50 ($28.25 – $21.75) in available ITCs, thus paying $6.50 more in HST to the government than necessary. When the account is debited as shown in the green column, the current ITC of $25 would correctly increase by $3.25 for a total credit of $28.25, thereby maximizing the available ITC. The amount of HST paid on Purchases used in this example was kept small for simplicity; however, consider the potential loss that can accumulate with higher amounts and incorrect credit entries.

In addition to the HST Paid on Purchases account, other typical Contra Accounts include the Allowance for Doubtful Account, Accumulated Depreciation Accounts, Owner's Drawings Account, Service Refunds Account, Sales Returns Accounts, Sales Allowances Accounts (e.g., sales, discounts, etc.), and Purchase Returns Accounts. If you remain unsure about contra accounts, you may wish to research the internet and other resources for additional information.

> *Identify all the Contra Accounts in your COA and mark them as Contra as a reminder to treat them opposite to what is instructed in Table 1.*

Now let's review an example of a simpler transaction involving HST that is charged on sales.

Example 4-10: Sale with HST

On January 15, 2022 Jane Doe, Owner of JD Consulting, issues invoice #75 to the Ottawa School Board for consulting services rendered. The invoice outlines consulting fees of $800.00 plus HST in the amount of $104 for a total of $904.00. Jane has provided the School Board with 30 days to pay the invoice.

TASK: Using the TAM and Table1 perform an analysis on the above transaction on a separate piece of paper. Compare your analysis with the one provided.

Step 1: value given is consulting fees and value received is money to be received on account

Step 2: consulting fees $800 + $104 HST = $904.00

Step 3: 4020 Revenue – Consulting (REVENUE), 2020 HST Charged on Purchases (LIABILITIES), and 1030 Accounts Receivables (ASSETS)

Step 4: transaction will increase the balances of the Revenue – Consulting Account, the HST Charged on Purchases Account, and the Accounts Receivables Account

Step 5: to increase the balance of the 4020 Revenue – Consulting Account Credit it $800, to increase the balance of the HST Charged on Purchases Account Credit it $104, and to increase the balance of the 1030 Accounts Receivable Account Debit it $904

Step 6: Date of Transaction: January 15, 2022
Explanation: Consulting Services Rendered to Ottawa School Board, Inv. 75

1030 Accounts Receivable		4020 Revenue - Consulting		2020 HST Charged on Sales	
Debit	Credit	Debit	Credit	Debit	Credit
$904.00			$800.00		$104.00

Step 7: Debits = Credits passing double-entry test

Note how Table 1 worked properly for the HST Charged on sales account because it is <u>not</u> a contra account.

How did you do with your analysis? Was it the same as the one provided above? If so, congratulate yourself for quickly grasping the basics of analyzing transactions involving three accounts! If you arrived at a different outcome with your analysis, after reviewing the analysis provided above you likely already understand where your analysis went off track and have developed a better grasp of analyzing transactions involving three accounts. Review the section again to reinforce your new understanding and congratulate yourself too!

> *Review the section on Contra Accounts until you are comfortable that you clearly understand why and how they are treated opposite to the other Accounts within their Account Group when using Table 1.*

CHAPTER 5 - JOURNALS

Manual bookkeeping requires the purchase of columnar accounting books.

Read this chapter as well as Chapter 6 – Ledgers prior to purchasing accounting books.

Cross-Footing	a **process involving drawing a double line below a group of columns to illustrate that Debits = Credits**
Footing	a **process of adding all the numbers in a single column and writing the total at the bottom** (foot) **of the column**
Journal	a **book of original entry used to first record original (raw) financial transactions** from source documents in order by date
Journalizing	**recording transaction information** into a Journal
Journal Entry	a **recorded transaction** within a Journal

Books of Original Entry

Analyzed financial transactions are first recorded into a **Journal**, which is essentially **a chronological diary of the financial activities of the business**. Regardless of the type of transaction, a journal entry should explain what occurred and include the date, the source document, the accounts involved, the debit and credit amounts, and a **Posting Reference,** which **in a Journal, reflects** the **account number to which the entry was posted**.

Typical Journals are shown in the following illustration. A business may have several special Journals (shown in green) for recording its financial transactions. The Journals shown in gold are private Journals to keep personal information about the owner and employees from other employees or individuals who have access to the business's books but do not need this level of personal information to perform their job. If the owner is doing the bookkeeping and is the only person to see information within the books, they may decide not to maintain separate private Owner's Equity Journal opting instead to include owner's equity transactions in the General Journal. Similarly, if the owner is doing the bookkeeping and again is the only one to see the information within the books, and the business has very few employees, the owner may opt to forgo a private Cash Disbursements Payroll Journal and instead enter the payroll disbursement transactions in the Cash Disbursements Journal.

```
                    ┌─────────────────┐   ┌─────────────────┐
                    │ General Journal │───│ Owner's Equity  │
                    │      (GJ)       │   │ Journal  (OEJ)  │
                    └─────────────────┘   └─────────────────┘
        ┌───────────┬─────────┴──────┬───────────────┐
┌──────────┐  ┌──────────┐   ┌──────────┐   ┌──────────────┐
│  Sales   │  │Purchases │   │   Cash   │   │     Cash     │
│ Journal  │  │ Journal  │   │ Receipts │   │Disbursements │
│   (SJ)   │  │   (PJ)   │   │ Journal  │   │Journal (CDJ) │
└──────────┘  └──────────┘   │  (CRJ)   │   └──────────────┘
                             └──────────┘          │
                                           ┌──────────────┐
                                           │     Cash     │
                                           │Disbursements-│
                                           │   Payroll    │
                                           │    (CDP)     │
                                           └──────────────┘
```
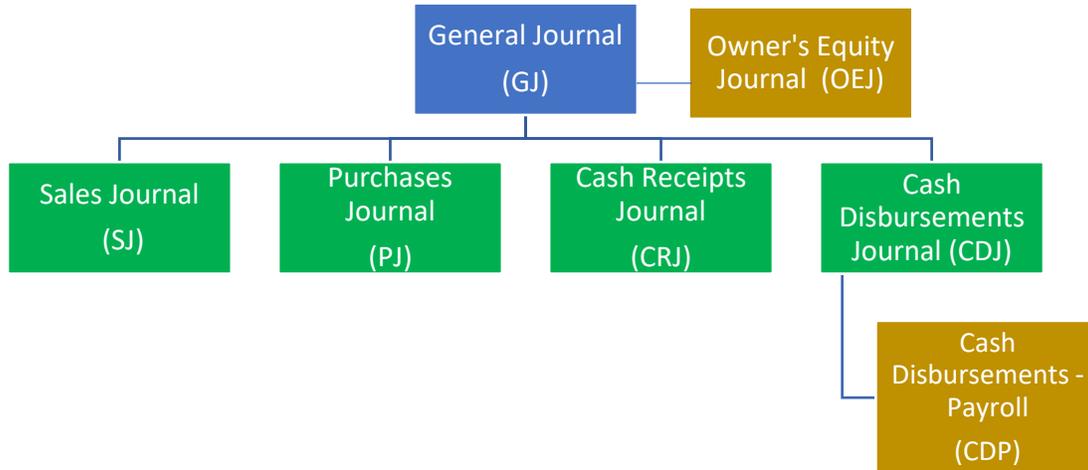
Columnar Accounting Books

There are several types of columnar accounting books that can be used for various purposes. The columnar book shown in the example below is called a two-column book because it has two columns located on the right side of each page for entering debit (Dr) and credit (Cr) amounts. There are also journal books with many more columns (e.g., 8, 16, or 32).

Example 5-1: Two-Column Accounting Book

PAGE ____

1					
2					

Organization Requirements for Journals

The following requirements apply to <u>all</u> Journals:

- Each journal should have a Name/Title
- Each page number of a journal is numbered in ascending order starting with page 1
- At the beginning of each fiscal year, the first page of the journal restarts with page 1
- Each journal should have a column for recording the following:

  a) the **Date** the transaction occurred
  b) the **Account Names** (from the COA that will be impacted by the transaction) **and Details** of the transaction obtained from the Source Document (e.g., explanation of what the transaction is including information such as customer, supplier, invoice number, payment number, purchase order number, etc.).
  c) a **Post Reference** (**PR**) or **Folio** (**F**) column for cross referencing between journals and ledgers
  d) the **Debit (Dr)** amount of the transaction
  e) the **Credit (Cr)** amount of the transaction
  f) **Summary Footing** of Columns in <u>Special</u> Journals at end of each month (covered at end of this Chapter)

Unless otherwise instructed from this point forward use

the account names and corresponding account numbers from A2Z's COA (p.7)

when completing exercises, even if different companies are named

---

General Journal (GJ)

The General Journal (GJ) is best used for infrequent transactions as: (1) recording all transactions into one journal is not efficient for locating specific transactions and (2) summarizing and posting journal entries to the Ledger Accounts would be confusing and prone to errors. Infrequent transactions to be posted in the GJ include but are not limited to, adjustments to the general ledger accounts for month-end and year-end, sale of assets, depreciation, interest income and interest expense, and stock sales for incorporated businesses. The *information from the GJ is subsequently posted to the General Ledger and Subledgers*.

Organization Requirements for the GJ

In addition to the general organization requirements that apply to all Journals (p.27), the following requirements apply for the GJ:

- All Debit entries should be entered before all Credit entries within a transaction
- Where multiple Debits and/or Credits are involved in a transaction, all Debits and Credits are shown
- Where multiple Debits and/or Credits are involved in a transaction, the Accounts being used within each set of Debits and Credits should be listed in the order they appear in the COA
- After the Debits and Credits are entered, a line describing the transaction is entered
- The respective Account Numbers are not entered into the Post Reference (POST. REF.) column until they are posted to the General Ledger (to be covered in Chapter 6 – Ledgers)
- A blank line should be left between each transaction to set them apart from each other
- Columns in the General Journal are not totaled

The General Journal can be kept using a two-column accounting book. An entry in the General Journal typically takes the following form:

Example 5-2: General Journal Entry Format

<div align="center">

GENERAL JOURNAL   PAGE 1

</div>

	[YEAR] DATE	ACCOUNT	POST. REF.	DEBIT	CREDIT
1	*Date*	*Name of Account being Debited*		Amount	
2		*Name of Account being Credited*			Amount
3		*Short Description of Transaction*			
4		LEAVE SPACE			
5	*Date*	*Name of Account being Debited*		Amount	

Example 7-3: General Journal Entries

<div align="center">

GENERAL JOURNAL   PAGE __1__

</div>

	2022 DATE		ACCOUNT	POST. REF.	DEBIT				CREDIT			
1	Jan	31	Depreciation Expense	5050	1	0	0	00				
2			Accumulated Depreciation Computer	1511					1	0	0	00
3			To record depreciation for month of January									
4			LEAVE SPACE									
5	Jan	31	Bank Account		4	8	5	00				
6			Interest & Clearinghouse Fees			1	5	00				
7			Money in Transit						5	0	0	00
8			To adjust for Clearinghouse Fees									

Credit Card Sales

As previously mentioned, the ASSET Money in Transit account can be used for posting pending deposits from a Credit Card Clearinghouse in respect of funds from a customer who made a purchase using their credit card. These types of credit card receipts (i.e., deposits of credit card payments to be received) are subject to Clearinghouse fees. If the Clearinghouse does not bill your business separately for Clearinghouse fees, they will take their fees off the purchase amount before the deposit is made. Consequently, the amount of the actual deposit will be less than the amount of the purchase that was posted to in the Money in Transit Account. In such a case you will need to do a General Journal entry such as the one recorded on lines 5 through 8 in example 5-3. Specifically, you will need to DEBIT your ASSET Bank Account by the amount of money deposited in your bank account, DEBIT your EXPENSE Interest & Bank/Clearinghouse Fee Account for the fee (i.e., the difference between the credit card purchase amount and the amount deposited) and, then CREDIT the ASSET Money in Transit account by the full amount of the purchase.

> *Request your Credit Card Company Merchant Services to bill your company separately for clearinghouse fees. Hopefully they will agree to your request as it will make bookkeeping of your credit card receipts and balancing of your accounts much easier, especially if your company does a lot of credit card sales.*

If you are not prepared for lower deposits than expected, especially if you have many pending credit card deposits sitting in your Money in Transit account, and you do not make the necessary adjusting entries in the General Journal, your accounts will not balance at month end.

Owner's Equity Journal (OEJ)

The Owner's Equity Journal (OEJ) is used to record entries for Accounts within your EQUITY Account Group. The *information from the Owner's Equity Journal is subsequently posted to the General Ledger and Subledgers*, which will be covered in the next Chapter. Except for a different journal name, the layout of the OEJ is the same as the General Journal. Entries made in the OEJ are made in the same manner as shown in Example 5-2 above. The only visible difference is the name of the Journal and the type of entries that are recorded in it which are typically Owner contributions and withdrawals.

> *If your business will not have many Equity Journal entries (e.g., minimal owner contributions and withdrawals each month) and you do not have privacy concerns as discussed on page 25, you may wish to reduce the number of journals needed by foregoing a separate journal for Owner's Equity and instead entering your owner equity transactions into the General Journal. You will note that journalizing transactions into the OEJ follows the same requirements as for the GJ.*

Organization Requirements for the OEJ

In addition to the general organization requirements that apply to all Journals (p.27), the following requirements apply for the Owner's Equity Journal:

- All Debit entries should be entered before all Credit entries within a transaction
- Where multiple Debits and/or Credits are involved in a transaction, all Debits and Credits are shown
- Where multiple Debits and/or Credits are involved in a transaction, the Accounts being used within each set of Debits and Credits should be listed in the order they appear in the COA
- After the Debits and Credits are entered, a line describing the transaction is entered
- The respective Account Numbers are not entered into the Post Reference (POST. REF.) column until they are posted to the General Ledger
- A blank line should be left between each transaction to set them apart from each other
- Columns in the Owner's Equity Journal are not totalled

The Owner's Equity Journal can be kept using a two-column accounting book.

Example 5-4: Owner's Equity Journal(OEJ)

OWNER'S EQUITY JOURNAL   PAGE _1_

	2022 DATE		ACCOUNT	POST. REF.	DEBIT	CREDIT
1						

Example 5-5: Owner's Equity Journal Entries

OWNER'S EQUITY JOURNAL   PAGE _OEJ1_

	2022 DATE		ACCOUNT	POST. REF.	DEBIT	CREDIT
1	Jan	1	Bank Account (Cash Acct)	1011	10 0 0 0 00	
2			Owner's Contribution	3000		10 0 0 0 00
3			To record Owner's Investment in Business			
4						
5	Jan	12	HST Paid on Purchases	2040	2 60	
6			Office Supplies	5200	1 9 99	
7			Owner's Contribution	3000		2 2 59
8			To record Owner purchase for business			

The first transaction represents $10,000 of the Owner's personal money invested (i.e., a loan) into the business. Debits are entered before Credits and a space is left between transactions. The second transaction represents Office Supplies purchased for the business by the Owner through personal funds. This transaction involves three accounts and again Debits are listed before Credits. The Accounts are listed in the order that they appear in the COA, that is the LIABILITIES account HST Paid on Purchases is listed before the EXPENSES account Office Supplies.

If you do not need to keep your Owner Equity Journal (OEJ) separate for privacy and anticipate having several equity entries or just prefer to keep your Owner Equity transactions recorded separate from the General Journal (GJ), you can use the same two column accounting book for the GJ and the OEJ. Assign most of the pages (e.g., 3/4) at the front of the accounting book to the GJ and the remaining pages (e.g., 1/4) at the back of the accounting book for the OEJ. Purchase adhesive tab labels to attach to the first page of each of the GJ and the OEJ. Ensure that the first page of each of the GJ and the OEJ start at page 1.

Example 5-6: General Journal & Owner's Equity Journal – Shared Accounting Book

```
                                                    ┌──────┐
┌───────────────────────────────────────────────┐  │ GJ   │
│                                                │  └──────┘
│                                                │
│              General Journal &                 │
│             Owner's Equity Journal             │
│                  Volume 1                       │
│                                                │  ┌──────┐
│                                                │  │ OEJ  │
│                 Date to Date                   │  └──────┘
│                                                │
│                                                │
└───────────────────────────────────────────────┘
```
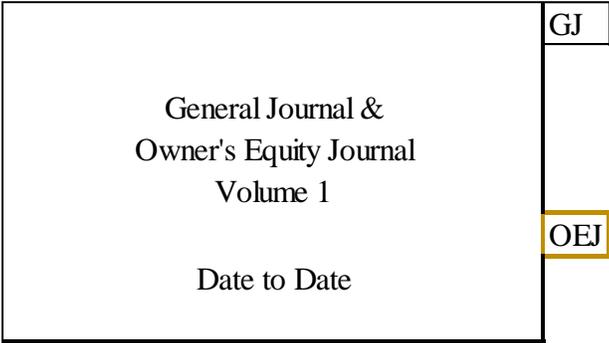
TASK: Based on your preference obtain one or two, two-column Columnar Accounting Books for your General Journal and Owner's Equity Journal. Examples 5-2 and 5-4 can be referred to as guides when setting up these journals.

Sales Journal (SJ)

The **Sales Journal** is used **only** to **record sales** of goods and services to customers who are permitted to buy now and pay at a future date (e.g., referred to as purchasing **on credit or account**). The *information from the Sales Journal is subsequently posted to the General Ledger and the Accounts Receivable Sub-ledger*, which will be discussed in the next Chapter. Note, sales transactions that are payable later are recorded in a different journal than sales transactions in which the customer pays at the point of purchase. Sales paid at the time of purchase are recorded in the cash receipts journal which will be covered later in this chapter. **If your business does not permit its customers to pay later, it does not need a Sales Journal. Skip to the Purchases Journal.**

The **number of columns** needed for your Sales Journal depends on how many Revenue – Sales Accounts you included in your COA. Your Sales Journal will need seven columns plus one column for every Sales Revenue account in your COA (e.g., A2Z would need a Sales Journal that has nine columns because it has revenue accounts for two separate services). Furthermore, if your business charges freight/delivery you will need an additional amount column for freight/delivery (Credit) entries.

Organization Requirements for the SJ

In addition to the general organization requirements that apply to all Journals (p.27), the following specifications and requirements apply for the Sales Journal:

- Date column for Invoice date
- Column for Customer name
- Column for Invoice Number
- Column for Terms of Sale
- Column for Accounts Receivable (Debit) entries
- One Column for each Sales Revenue Account (Credit) entries
- Column for Freight/Delivery Revenue Account (Credit) entries (if applicable)
- Column for HST Charged on Sales (Credit) if applicable
- Column for Post Reference
- No empty lines are placed between entries
- Footing process is applied (covered at the end of this chapter)

Once your transaction analysis is completed, journalizing entries into the Sale Journal is fairly straight forward. To demonstrate, the following example will take you through steps 1 and 2 of the Accounting Cycle for a sale of services made on account/credit at A2Z which is now required to charge HST on sales.

Example 5-7: Sale of Services on Credit with HST

On January 15, 2022, Henry, of A2Z issues Invoice No.229 to Jim's Towing in the amount of $1,130 representing consulting fees of $1,000 plus $130 HST (13%). A2Z offers Jim's Towing credit terms of Net 30 (i.e., 30 calendar days to pay from the date of the invoice).

Exercise: Using A2Z's COA (p.7), the TAM (p.11) and Table 1 (p.10) perform an analysis on the above transaction on a separate piece of paper. Then try entering the information into the Sales Journal template below. Complete the column account numbers and headings for the accounts needed.

<div align="center">

SALES JOURNAL   **PAGE 1**

</div>

#				#	#	#	#	
DATE	Customer	Invoice #	Terms	Accounts Receivable (Debit)	Account Name (Credit)	Account Name (Credit)	Account Name (Credit)	Post Ref.

Do not continue reading until you have finished then compare your analysis and Sales Journal to the ones provided below.

Analysis:

Step 1: Value Given: Consulting Services, Value Received: Monies to be paid by Jim's Towing

Step 2: $1,000 + $130 HST = $1,130

Step 3: 4020 Revenue – Consulting (REVENUE) for value given, 1030 Accounts Receivable(ASSET) for value to be received and 2020 HST Charged on Sales(LIABILITIES)

Step 4: Sale on credit transaction should increase the balance of each of the three accounts

Step 5: to increase the balance of the 1030 Accounts Receivable account Debit it $1,130, to increase the 4020 Revenue-Consulting account Credit it $1,000 and, to increase to the balance of the 2020 HST Charged on Sales account Credit it $130.00

Step 6: Date of Transaction: January 15, 2022
Explanation of Transaction: Invoice No. 229 for credit sale to Jim's Towing

4020 Revenue - Consulting			2020 HST Charged on Sales			1030 Accounts Receivable	
Debit	Credit		Debit	Credit		Debit	Credit
	$1,000.00			$130.00		$1,130.00	

Step 7: Debits = Credits passing double-entry test

SALES JOURNAL   PAGE **1**

2022				1030					4010					4020					2020					
				Accounts Receivable (AR) (Debit)					Revenue - Training (Credit)					Revenue - Consulting (Credit)					HST Charged on Sales (Credit)					
DATE	Customer	Invoice #	Terms																						Post Ref.
Jan 15	Jim's Towing	229	N30	1	1	3	0	00						1	1	3	0	00		1	3	0	00	
	Enter next transaction here																								

How did you do? Observe in the SJ how the entire transaction is recorded on one line and note:

i)   Because there is potential for sales on account on all revenue accounts, both Account 4010 Revenue -Training and Account 4020 Revenue-Consulting should always be included on A2Z's sales journal, even though Account 4010 Revenue-Training was not used for recording the transaction

ii) the Post Reference does not get entered until the transaction is posted to the General Ledger and Accounts Receivable Ledger.

TASK: Obtain a Columnar Accounting Book for the Sales Journal that has enough columns to accommodate the number of 'sales' revenue accounts that your business has (see number of columns on p.33). Use the Example 5-7 as a guide when setting up your SJ.

WHEN USING EXAMPLES PROVIDED AS GUIDES WHEN SETTING UP YOUR JOURNALS, REMEMBER TO USE THE APPROPRIATE ACCOUNT NAMES AND NUMBERS FROM YOUR COA, AND NOT A2Z'S.

Purchases Journal (PJ)

The Purchases Journal is used **only** to **record** your **business purchases** of goods and services **from Suppliers** <u>on Credit/Account</u> (i.e., your business buys now and pays later)**.** The *information in the Purchases Journal is subsequently posted to the General Ledger and the Accounts Payable Sub-ledger*, which will be covered in the next chapter. Purchases that your business immediately pays for are <u>not</u> included in this journal, but rather are recorded in the Cash Disbursements Journal which will be covered later in this chapter. **If your business will not purchase any goods and services from suppliers on credit, it does <u>not</u> need a Purchases Journal. Skip to the Cash Receipts Journal.**

The **number of columns** needed for your Purchases Journal depends upon the number of expense accounts included in your business's COA where you will make purchases on credit. For example, A2Z has 12 expenses accounts listed under the EXPENSES Account Group in its COA on p.7, however only 2 of these expense accounts will be "*regularly*" used by Henry when making purchases on credit (e.g., Accounts: 5100 Offices Expenses, 5200 Office Supplies). Therefore, A2Z's Purchases Journal would need 10 Columns, some of which are for amounts and some of which are for text information. Your Purchases Journal will need <u>eight columns plus one column for each expense account</u> that will be <u>used regularly to make</u> business <u>purchases on credit</u>.

Organization Requirements for the PJ

In addition to the general organization requirements that apply to all Journals (p.27*)*, the following specifications and requirements apply for the PJ:

- Date column for Invoice date
- Column for Supplier/Vendor name
- Column for Supplier's Invoice Number
- Column for Account's Payable (Credit) entries
- One Column for <u>each</u> of the Expense Accounts (Credit) entries (frequently used accounts)
- Column for HST Paid on Purchases (Debit) entries
- One Column for Miscellaneous Description (used for infrequently used accounts)
- Column for Miscellaneous Amount (Debit) entries
- Column for Post Reference (used for recording Account Number for Account entries under miscellaneous columns)
- No empty lines are placed between entries
- Footing process is applied (covered at end of this chapter)

Example 5-8: Purchases Journal

PURCHASES JOURNAL   Page 1

#			#	#	Acct #	Acct #			
DATE	Supplier/Vendor	Invoice #	Accounts Payable (Credit)	HST Paid on Purchases (Debit)	Expense Acct. Name (Debit)	Expense Acct. Name (Debit)	Miscellaneous Description	Miscellaneous (Debit)	Post Ref.

You may have some Expense Accounts which you will use to make 'infrequent' purchases on credit (e.g., in the case of A2Z Accounts: 5060 Income Tax Expense, 5300 Professional Fees, 5320 Subcontractor Fees). Purchases on Credit, for infrequent items, using such other expense accounts is also included in the Purchases Journal. They are journalized (entered) in the two columns titled Miscellaneous Description and Miscellaneous (Debit) just left of the Post Reference (Post Ref.) on the right side of the journal page. The Post Ref. column is not completed until the transaction is posted to the General Ledger and Accounts Payable Subledger.

Within some journals, miscellaneous columns exist to reduce the overall number of columns needed. By only assigning columns for frequently used expense accounts and using miscellaneous columns for entering infrequent expense accounts, the PJ becomes much simpler to enter purchases made on account by a business.

Example 5-9: Using Miscellaneous Columns in Purchases Journal

Jane Doe of JD Consulting subcontracted consultant, Betty Kim to assist on a project. Jane receives Invoice No.567 dated January 20, 2021 from Betty in the amount of $3,600 plus $468 HST for consulting services rendered. Betty has given Jane thirty days to pay the invoice. Jane is currently awaiting payment from her client and decides to pay Betty later.

For additional practice, analyze transactions even when not asked
and compare to analysis provided as you continue through this booklet.

Jane's analysis of the transaction produced the following information needed to record the transaction:

Date of Transaction: January 20, 2022
Explanation of Transaction: Invoice No.567 received from subcontractor Betty Kim

2010 Accounts Payable		2040 HST Paid on Purchases		5320 Subcontracting Fees	
Debit	Credit	Debit	Credit	Debit	Credit
	$4,068.00	$468.00		$3,600.00	

Jane does not use subcontractors very often. She journalizes the above transaction information into the PJ as shown below:

PURCHASES JOURNAL   Page __1__

2022			2010	2040	Acct #	Acct #			
DATE	Supplier/Vendor	Invoice #	Accounts Payable (Credit)	HST Paid on Purchases (Debit)	Expense Acct. Name (Debit)	Expense Acct. Name (Debit)	Miscellaneous Description	Miscellaneous (Debit)	Post Ref.
Jan 20	Betty Kim	567	4 0 6 8 00	4 6 8 00			Subcontractor Fees	3 6 0 0 00	

Observe EXPENSE account 5320 Subcontractor Fees has been entered under Miscellaneous Description and the amount of fees listed under Miscellaneous Debit. The Account Number for the Subcontractor Fees will be recorded in the Post Reference column at the time when it is posted to the General Ledger and Accounts Payable Subledger.

If Jane used subcontractors frequently, she would designate a column to the Subcontractor Fees Account and the journal entry would appear as follows:

PURCHASES JOURNAL   Page 1

2022			2010	2040	5320	Acct #			
DATE	Supplier/Vendor	Invoice #	Accounts Payable (Credit)	HST Paid on Purchases (Debit)	Subcontractor Fees (Debit)	Expense Acct. Name (Debit)	Miscellaneous Description	Miscellaneous (Debit)	Post Ref.
Jan 20	Betty Kim	567	4 0 6 8 00	4 6 8 00	3 6 0 0 00				

Example 5-10: Business Purchase on Credit

Henry from A2Z received an Invoice No.57 dated February 1, 2022 from his Accountant, David Smith, for professional services rendered in the amount of $1,695.00, which included $1,500 for fees and $195.00 for HST. The invoice indicates that the total amount must be paid within 30 calendar days. Henry decides to take advantage of the credit offered and pay this invoice later. Henry infrequently purchases services from his accountant.

Exercise: Using A2Z's COA, the TAM and Table 1 perform an analysis on the above transaction on a separate piece of paper. Then try entering the information into the PJ's provided below as instructed. Once completed compare your results to the Analysis and PJ provided.

PURCHASES JOURNAL   Page _1_

#			#	#	Acct #	Acct #			
DATE	Supplier/Vendor	Invoice #	Accounts Payable (Credit)	HST Paid on Purchases (Debit)	Expense Acct. Name (Debit)	Expense Acct. Name (Debit)	Miscellaneous Description	Miscellaneous (Debit)	Post Ref.

How would you journalize the transaction if Henry frequently purchases accounting services?

PURCHASES JOURNAL   Page _1_

#			#	#	Acct #	Acct #			
DATE	Supplier/Vendor	Invoice #	Accounts Payable (Credit)	HST Paid on Purchases (Debit)	Expense Acct. Name (Debit)	Expense Acct. Name (Debit)	Miscellaneous Description	Miscellaneous (Debit)	Post Ref.

Analysis

Step 1: value given: monies to be paid by A2Z, value received: Accounting Services

Step 2: $1,500 + $195 HST = $1,695

Step 3: 2010 Accounts Payable(LIABILITIES) (Value Given), 2040 HST Paid on Purchases (LIABILITIES), and 5300 Professional Fees (EXPENSE) (Value Received)

Step 4: the transaction should increase balance of 2010 Accounts Payable, increase the balance of 2040 HST Paid on Purchases Contra Account, and increase the balance of 5300 Professional Fees

Step 5: to increase the balance of 2010 Accounts Payable Credit it $1,695, to increase the balance of 2020 HST Paid on Purchases Debit it $195, and to increase the balance of 5300 Professional Fees Debit it $1,500

Step 6: Date of Transaction: February 1, 2022
Explanation of Transaction: Invoice No.57 from David Smith for Professional Services

2010 Accounts Payable		2010 HST Paid on Purchases		5300 Professional Fees	
Debit	Credit	Debit	Credit	Debit	Credit
	$1,695.00	$195		$1,500.00	

Step 7: Debits = Credits passing double-entry test

PURCHASES JOURNAL   Page __1__

2022			2010	2040	Acct #	Acct #			
		Invoice	Accounts Payable	HST Paid on Purchases	Expense Acct. Name	Expense Acct. Name	Miscellaneous Description	Miscellaneous	
DATE	Supplier/Vendor	#	(Credit)	(Debit)	(Debit)	(Debit)		(Debit)	Post Ref.
Feb 1	David Smith	57	1 6 9 5 00	1 9 5 00			Profess. Fees	1 5 0 0 00	5300

If Henry regularly purchased professional services (e.g., accountant, lawyer, etc.), he would journalize the transaction as follows:

PURCHASES JOURNAL   Page __1__

2022			2010	2040	5300	Acct #				
		Invoice	Accounts Payable	HST Paid on Purchases	Professional Fees	Expense Acct.	Miscellaneous Description	Miscellaneous		
DATE	Supplier/Vendor	#	(Credit)	(Debit)	(Debit)	Name (Debit)		(Debit)	Post Ref.	
Feb 1	David Smith	57	1 6 9 5 00	1 9 5 00	1 5 0 0 00					

TASK: **Decision:** (enter number) _____ columns are needed for your Purchases Journal. Refer to **number of columns** on page 36 if needed. Obtain a Columnar Accounting Book for the Purchases Journal that has enough columns to accommodate your business's needs. Use the Purchases Journal in Example 5-8 as a guide when setting up your journal.

Cash Receipts Journal (CRJ)

The Cash Receipts Journal is used to **record all cash received** by your company, whether the funds were received through cash sales, receipt of funds from a loan, payments on customer accounts, or the sale of assets. Cash includes currency bank notes and coins, money orders, and cheques. *The information from the Cash Receipts Journal is subsequently posted to the General Ledger and the Accounts Receivable Subledger*.

The **number of columns** needed for your CRJ depends upon the number of 'sales' revenue accounts included in your business's COA. For example, A2Z has two sales revenue accounts (e.g., Revenue – Training and Revenue – Consulting) listed under the REVENUE Account Group in its COA (p.7). A2Z's Cash Receipts Journal would need 11 columns, some of which are for amounts and some of which are for text information. Your Cash Receipts Journal will have nine columns plus one column for each 'sales' revenue account that will be used to record cash received by your company.

Organization Requirements for the CRJ

In addition to the general organization requirements that apply to all Journals (p.27), the following specifications and requirements apply for the CRJ:

- Date column for the Receipt date
- Column for a brief description or Customer name
- Column for Invoice Number
- Column for the Bank Account (Debit) entries
- Column for HST Charged on Sales (Credit) entries
- Column for Accounts Receivable (Credit) entries
- One Column for each Sales Revenue Account (Credit) entries
- Column for Miscellaneous Description Column (infrequently used accounts)
- Column for Miscellaneous amounts (Credit) entries
- Post Reference (used for recording Account Number for Account entries under miscellaneous columns)
- No empty lines are placed between entries
- Footing process is applied (to be covered at the end of journal section)

Note: The HST Charged on Sales (Credit) column should only be used when entering Cash Sales where HST is charged. If your business does not charge HST on Sales, this column is not used. If your business does charge HST on sales, when customers make a payment on their Accounts Receivable account do not break the payment down between sale and HST charged as this has already been done when the Sale on Credit was first recorded in the Sales Journal.

In example 5-11 below the journal includes Miscellaneous Description and Miscellaneous Credit columns for recording cash receipt transactions on accounts that do not occur frequently. As well, the example shows two Revenue Accounts. If your business has one Revenue Account you would only need one Revenue Account column. That is, your Cash Receipts Journal would need a total of 10 columns instead of the 11 shown in the example.

Example 5-11:   Cash Receipts Journal

CASH RECEIPTS JOURNAL   PAGE   1

#			#	#	#	#	#			
DATE	Description	Invoice #	Cash Account (Debit)	HST Charged on Sales (Credit)	Accounts Receivable (Credit)	Revenue - Account (Credit)	Revenue - Account (Credit)	Miscellaneous Description	Miscellaneous (Credit)	Post Ref.

Example 5-12: Cash Receipt Transaction using Miscellaneous Columns

On February 15, 2022, A2Z receives an electronic transfer from the Professional Trainers Association of Ontario (PTAO) directly to his bank account in the amount of $50 as an honorarium for speaking at their Annual General Meeting. After performing his analysis, Henry identifies the following information required for journalizing this transaction into A2Z's CRJ:

Date of Transaction: January 15, 2022
Explanation of Transaction: Honorarium from PTAO

1011 Cash Account		4999 Miscellaneous Revenue	
Debit	Credit	Debit	Credit
$50.00			$50.00

CASH RECEIPTS JOURNAL   PAGE   1

2022			1011	2020	1030	4010	4020			
DATE	Description	Invoice #	Cash Account (Debit)	HST Charged on Sales (Credit)	Accounts Receivable (Credit)	Revenue - Training (Credit)	Revenue - Consulting (Credit)	Miscellaneous Description	Miscellaneous (Credit)	Post Ref.
Jan 15	PTOA Honorarium		5 0 00					Misc. Revenue	5 0 00	

Henry used the Miscellaneous columns to record the honorarium. The next transaction would be entered on the next available line.

Example 5-13: On February 13, 2022, A2Z receives a $2,000.00 cash payment on Customer Account No. C333OS from the Ontario School of Pickle Ball Players (OSPBP). This payment is towards Invoice No. 267 dated January 17, 2022. At lunch time, Henry deposits the payment directly into A2Z's bank account.

Exercise: Using A2Z's COA (p.7), the TAM and Table 1 perform an analysis of the above transaction on a separate piece of paper. Try entering the information into the CRJ provided. Once completed compare your results to the Analysis and CRJ provided.

CASH RECEIPTS JOURNAL   **PAGE 1**

#			#	#	#	#	#			
DATE	Description	Invoice #	Cash Account (Debit)	HST Charged on Sales (Credit)	Accounts Receivable (Credit)	Revenue - Account (Credit)	Revenue - Account (Credit)	Miscellaneous Description	Miscellaneous (Credit)	Post Ref.

Analysis:

Step 1: value given: reduction in Accounts Receivable, value received: cash

Step 2: $2,000

Step 3: two ASSET accounts are involved: 1011 Cash Account and 1030 Accounts Receivable

Step 4: the transaction will increase the 1011 Cash Account balance and decrease the balance of the 1030 Accounts Receivable Account

Step 5: to increase 1011 Cash Account Debit it $2,000, to decrease 1030 Accounts Receivable account Credit it $2,000

Step 6: Date of Transaction: February 13, 2022
Explanation of Transaction: Payment Received by OSPBP on Account 333, Invoice No.267

1011 Cash Account		1030 Accounts Receivable		Account Name & #	
Debit	Credit	Debit	Credit	Debit	Credit
$2,000.00			$2,000.00		

Step 7: Debits = Credits, passes double-entry test.

CASH RECEIPTS JOURNAL   **PAGE CRJ 1**

2022			1011	2020	1030	4010	4020			
DATE	Description	Invoice #	Cash Account (Debit)	HST Charged on Sales (Credit)	Accounts Receivable (Credit)	Revenue - Training (Credit)	Revenue - Consulting (Credit)	Miscellaneous Description	Miscellaneous (Credit)	Post Ref.
Feb 13	OSPBP,C320OS	267	2 0 0 0 00		2 0 0 0 00					

You will observe from the above journal entry that the amount of funds received on account was not broken down between sales and HST charged. As mentioned previously, this is because when the sale, on credit, was recorded in the Sales Journal, both the Sale and HST amounts are recorded at that time. The HST Charged on Sales column is used only when recording "Cash Sales" in this journal.

TASK: **Decision:** (enter number) _____ columns are needed for your CRJ. Refer to **number of columns** on page 41 if needed. Obtain a Columnar Accounting Book for the CRJ that has enough columns to accommodate your business's needs. Use Example 5-11 as a guide when setting up your journal.

Cash Disbursements Journal (CDJ)

The **Cash Disbursements Journal** is used to **record cash spent by your business**, such as cash purchases, making payments on invoices owed by your business, or paying for business expenses. *The information from the Cash Disbursements Journal is subsequently posted to the General Ledger and the Accounts Payable Subledger*, which will be covered in the next chapter.

The **number of columns** needed for your CDJ depends upon the number of liability and expense accounts your business will <u>frequently</u> pay. For example, A2Z has six liability accounts and 16 expense accounts listed on its COA (p.7), however not all will be frequently used. Henry has determined that the accounts he will use most frequently for recording cash spent are 5100 Office Expenses and 5200 Office Supplies. A2Z's Cash Disbursements Journal would need a total of 11 columns, some of which are for amounts and some of which are for text information. Your CDJ will have <u>eight columns (nine if you have a Petty Cash Fund) plus one column for each expense account that will be frequently used</u> to record cash spent by your company.

Organization Requirements for the CDJ

In addition to the general organization requirements that apply to all Journals (p.27), the following specifications and requirements apply for the Cash Disbursement Journal:

- Date column for the Disbursement date
- Column for payment source (e.g., Cheque #)
- Column for description of payee (who cash is being paid to)
- Column for the Bank Account (Credit) entries
- Column for Petty Cash Account (Credit) entries (if applicable)
- Column for HST Paid on Purchases (Debit) entries
- Column for Accounts Payable (Debit) entries as well as for any frequently used Payable Account (e.g., Credit Card Payable Accounts such as Visa, MasterCard or other)
- One Column for <u>each</u> Expense Account (Debit) entries (i.e., frequently used accounts)
- Column for Miscellaneous Description Column (infrequently used accounts)
- Column for Miscellaneous amounts (Debit) entries
- Post Reference (used for recording Account Number for Account entries under miscellaneous columns)
- No empty lines are placed between entries
- Footing process is applied (to be covered at the end of journal section)

Example 5-14: Cash Disbursements Journal

CASH DISBURSEMENTS JOURNAL   PAGE 1

# DATE	Cheque #	Description	# Cash Account (Credit)	# HST Paid on Purchases	# Accounts Payable	# Account Name (Debit)	# Account Name (Debit)	Miscellaneous Description	Miscellaneous (Debit)	Post Ref.

Example 5-15: Cash Disbursement Journal Entries

CASH DISBURSEMENTS JOURNAL   PAGE 1

2022 DATE	Cheque #	Description	1011 Cash Account (Credit)	2040 HST Paid on Purchases (Debit)	2010 Accounts Payable (Debit)	5100 Office Expenses (Debit)	5200 Office Supplies (Debit)	Miscellaneous Description	Miscellaneous (Debit)	Post Ref.
Jan 4	75	Staples	1 6 3 85	1 8 85			1 4 5 00			
Jan 6	76	Bell Canada	2 7 4 59	3 1 59		2 4 3 00				
Jan 17		Bank Loan Pymt	5 6 2 50					Loan Pymt	5 0 0 00	
								Loan Interest	6 2 50	

Observe that like some of the other special journals, columns are assigned for frequently used accounts and miscellaneous columns are used to enter transactions for more infrequently used accounts. A CDJ may have several columns if the business has a number of frequently paid accounts and *it is often the journal requiring the most columns*. To fit the example on this page, only two expense accounts are used.

Example 5-16: On January 20, 2022, A2Z issues cheque No.143 to Security 4U for payment of invoice No. 465-32C which is the annual fee for professional insurance for the period January 1 to December 31, 2022 in the amount of $1,440.75 ($1,275.00 fees plus $165.75 HST)

Exercise: Using A2Z's COA (p.7), the TAM and Table 1 perform an analysis of the above transaction on a separate piece of paper. Then try entering the information into the CDJ provided. Do not read further until you have completed this exercise. If you get stuck, look back at Example 2-9 (p.13 of Booklet). Compare your results to the Analysis and CDJ provided.

CASH DISBURSEMENTS JOURNAL   PAGE 1

# DATE	Cheque #	Description	# Cash Account (Credit)	# HST Paid on Purchases	# Accounts Payable	# Account Name (Debit)	# Account Name (Debit)	Miscellaneous Description	Miscellaneous (Debit)	Post Ref.

Analysis

Step 1: Value given: payment, Value received: professional insurance

Step 2: $1,275 fees + $165.75 HST = $1,440.75

Step 3: Three Accounts: 1011 Cash Account (ASSET), 1040 Prepaid Expense Account (ASSET) and 2040 HST Paid on Purchases (LIABILITIES)

Step 4: the transaction will decrease 1011 Cash Account, increase 1040 Prepaid Expense Account, and increase 2040 HST Paid on Purchases

Step 5: to decrease 1011 Cash Account Credit it $1,440.75, to increase 1040 Prepaid Expenses Account Debit it $1,275.00, and to increase 2040 HST Paid on Purchases Account Debit it $165.75

Step 6: Date of Transaction: January 20, 2022
Explanation of Transaction: Cheque 143 to Security 4U annual professional insurance

1011 Cash Account		1040 Prepaid Expenses		2040 HST Paid on Purchases	
Debit	Credit	Debit	Credit	Debit	Credit
	$1,440.75	$1,275.00		$165.75	

Step 7: Debits = Credits, passes double-entry test.

CASH DISBURSEMENTS JOURNAL   **PAGE 1**

2022			1010	2040	2010	1040	#			
DATE	Cheque #	Description	Cash Account (Credit)	HST Paid on Purchases (Debit)	Accounts Payable (Debit)	Prepaid Expense (Debit)	Account Name (Debit)	Miscellaneous Description	Miscellaneous (Debit)	Post Ref.
Jan 20	143	Security 4U - Prof. Insurance	1 4 4 0 75	1 6 5 75		1 2 7 5 00				

How did you do? Did you catch that the annual professional insurance was a prepaid expense? The only item that will be pointed out, just in case you were wondering, is that the HST Paid on Purchases is not considered a prepaid expense. It is an expense that needs to be recorded and the related HST ITCs claimed in the period that they occurred.

Adjusting Entries

From time to time adjusting entries will need to be made in journals for various reasons, one of which is for Prepaid Expenses. With Prepaid Expenses, such as prepayment of the Professional Insurance used in the preceding example, you would need to do an adjusting entry in the General Journal for 1/12 of the original amount entered in the Prepaid Expense Account, at the <u>end of each month.</u> The transaction requires that the balance of the Professional Insurance Expense Account be increased and the balance of the Prepaid Expense Account be decreased. <u>The information from this transaction is then posted to the General Ledger.</u>

Example 7-17: Adjusting Entry for Prepaid Expenses from Example 5-16

Date of Transaction: January 31, 2022
Explanation of Transaction: Month End Adjusting Entry

5070 Professional Insurance		1040 Prepaid Expenses	
Debit	Credit	Debit	Credit
	$106.25		$106.25

GENERAL JOURNAL   PAGE 1

	2022 DATE		ACCOUNT	POST. REF.	DEBIT	CREDIT
1	Jan	1	Professional Insurance		1 0 6 25	
2			Prepaid Expenses			1 0 6 25
3			To record adjusting entry for January			
4			LEAVE SPACE			

Note: Expenses that are paid in advance are an ASSET. Only when an adjustment entry is done at the end of each month does the payment <u>for that month</u> transform into an EXPENSE.

TASK: **Decision:** (enter number) _____ columns are needed for the CDJ. Refer to **number of columns** on page 45 if needed. Obtain a Columnar Accounting Book for the CDJ that has enough columns to accommodate your business's needs. Use the CDJ in Examples 5-14 and 5-15 as guides when setting up your journal.

Footing Processes

At the end of each month or when a page is full in a **special** journal a **FOOTING PROCESS** is done. This involves (1) **drawing a line under the amount columns below the last transaction recorded** and (2) **totaling each debit and credit amount column and writing the total at the foot (bottom) of each column.** Thereafter the **CROSS-FOOTING PROCESS** is done, which involves (1) **making sure that the total Debits = total Credits** and when they do (2) **draw a double line under the totals**. If they do not balance, an error has been entered in the journal and you will need to review entries in the Journal from the last time they were balanced. To find the error you will need to check entries for typographical errors to make sure the amounts were entered correctly from the source document and that debits and credits balance.

Example 5-18: Footing Processes

PURCHASES JOURNAL   **Page PJ1**

2022 DATE	Supplier/Vendor	Invoice #	2010 Accounts Payable (Credit)	2040 HST Paid on Purchases (Debit)	5300 Professional Fees (Debit)	5320 Subcontracting Fees (Debit)	Miscellaneous Description	Miscellaneous (Debit)	Post Ref.
Jan 2	Emma Gagnon	AP230	904 00	104 00		800 00			
7	Mia Jones	AP212	226 00	26 00	200 00				
12	Oliver Tremblay	AP163	1017 00	117 00	900 00				
15	Harper Davis	AP287	678 00	78 00		600 00			
19	Henry Bannon	AP076	1130 00	130 00		1000 00			
23	James Smith	AP254	226 00	26 00	200 00				
25	Sophia Singh	AP290	565 00	65 00		500 00			
28	Alex Wilson	AP 124	565 00	65 00		500 00			
			5311 00	611 00	1300 00	3400 00			

The Total Footing of columns is illustrated in blue and the Cross-Footing of Columns is illustrated in red. Observe that (1) a thick line is drawn under the amounts of the last transaction entered into the Journal, (2) each column has been added and the totals entered at the foot of the columns, (3) that the total of the three Debit columns combined equal $5,311.00 which is the total of the Credit column, and (4) that a double line has been drawn underneath all columns to confirm the double-entry test has been passed.

> *Use Table 1 for identifying Debits and Credits, ensuring to apply the opposite for contra accounts. Until you are well practiced, do not skip using T-Accounts as they can visually reflect errors that need to be rectified **before** Journalizing. After recording a transaction into a Journal double-check to ensure all information was correctly transferred from Step 6 of your analysis into the Journal and perform double-entry test on the Journal entry. Doing so will help to promptly identify and correct any errors at the time of entry and prevent Debit and Credit imbalance and searching for missing entries or entry errors during the Cross Footing Process.*

CHAPTER 6 - LEDGERS

After the footing process of Journals has been completed, the third step of the Accounting Cycle involves posting of journal entries into bookkeeping ledgers. Posting from Journals into Subledgers should be a part of your daily bookkeeping activities. <u>Posting from the General Journal and the Owner's Equity Journal into the General Ledger is done daily</u> and <u>from Special Journals into the General Ledger at the end of each month.</u>

POSTING — **recording** of **information from journals into a ledger**

LEDGER — this **book** is for **posting** transaction **information to specific Accounts**

SHEET — **a page in a ledger**. All the sheets relating to an Account form the record of that Account. The Sheet # is used for cross-referencing posted entries.

CONTROL ACCOUNT — an **Account** that performs as a summary account for its related **Subledgers**

SUBLEDGER — used to **record detail**s of transactions **into separate records** for customer, vendors, employees, etc.

GENERAL LEDGER — a **book** that has a **separate page for each Account** in the COA.

Posting

Recall that when entering information into a Journal the Post Reference (PR, Post Ref. or folio) column is left blank. Typically, an incomplete PR illustrates the journal entry has not yet been posted into the Ledger *or that the Bookkeeper forgot to enter it after previously posting it to a ledger) so* be careful not to double post the same transaction

Posting involves transferring the transaction information from Journals to the General Ledger and applicable Subledgers. Posting of transaction information into the Ledgers is very important because it is the Ledger information that is used for creation of financial reports and statements. The transaction is cross-referenced in the PR column AFTER the transaction information is transferred from a Journal to a Ledger.

Example 6-1: Cross-Referencing Using Posting Reference (PR)

The transaction information from line 24 of Page 2 of a Purchases Journal is posted to line 7 of Sheet 1 the General Ledger.

Once the Journal Entry has been posted from a Journal to the General Ledger, the initials of the Journal and Page of the Journal are typically entered into the PR column. In the case of this example, PJ2 would be written under the PR column on line 7 of Sheet 1 of the General Ledger. *For ease of future tracing, some bookkeepers keeping "physical" financial books choose to add the line number to the cross-reference (e.g., PJ2-24). However, this is <u>not</u> recommended if books are kept electronically in case line numbers change resulting in inaccurate line cross-references.* Once this "Journal-Page" reference has been made in the Ledger, the cross-reference of the Account Number to which the transaction was posted in the General Ledger would be entered in the PR column on line 24 of Page 2 of the Purchases Journal.

Upon completion of the cross-referencing using the PR columns of the Journal and Ledger, make a practice of either writing or stamping the word "Posted" on your Source Document (in a colour that is easily seen) before filing it. Doing so helps to easily distinguish between Source Documents that have been posted and those that have not. Source Documents should not be filed until they have been posted and stamped. *If you wish to make tracing even easier, write a cross-reference to the journal of original entry (e.g., PJ2) under the word Posted on the Source Document.*

Control Accounts

A COA may have Ledger accounts that are Control Accounts because they contain the combined totals for transactions that are individually recorded in related subledger accounts. Large businesses typically have many Control Accounts that extend their use to other COA accounts depending on the level of detail financial information that is required to operate their business. Fortunately, the number of Control Accounts that small businesses use is usually limited to accounts such as Accounts Receivables, Accounts Payable, and payroll related accounts. However, some small business may extend the use of control accounts to revenue and inventory accounts.

Control Accounts		Subledgers
Accounts Receivables	⟵⟶	Customer Accounts
Accounts Payables	⟵⟶	Vendor Accounts
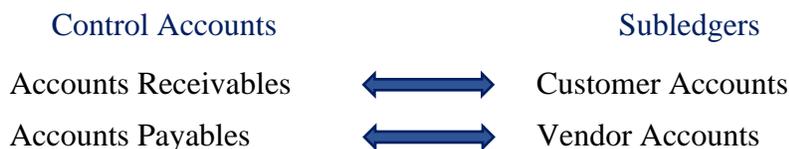
Since posting information from Journals into Subledgers is to be performed daily, instructions in the next section will begin with Subledgers and will cover instructions for the Accounts Receivable and Accounts Payable Subledgers as they are the ones used more often. These instructions can be used as a guide for applying to other subledgers and control accounts that your business may use.

Subledgers

Subledgers are books used to **record details of transactions into separate records of accounts. These** may include customers, vendors (suppliers), inventory, revenue streams, fixed assets, employees, and partners depending upon the needs of the business. An **Account Name** on a Subledger Sheet refers to a **specific Customer or Vendor**. An **Account Number** on a Subledger Sheet refers to the **unique reference number** that is **assigned to each Customer** permitted to purchase on credit (i.e., Customer number) and to **each Vendor** that the company uses to purchase on credit (i.e., Vendor number). Account Names and Account Numbers in the Subledger Sheets are **different** than those listed in the COA and care should be taken so they are not mixed up when recording transactions or issuing invoices and payments. A business does not have to use customer and vendor numbers however it is good practice to do so if you have customers or suppliers with similar names.

> *Use of unique numbers may prove invaluable for ensuring that: the right invoice gets to the right customer and the payment is sent to the right vendor, that related transactions are recorded in the right subledger, and for back-tracking records when looking for errors.*

Keep separate Subledger books (binders work nicely) for Accounts Receivables and Accounts Payable. File Customer Subledger Sheets in alphabetical order by the Customer's last name and Vendor Subledger Sheets in alphabetical order by Company Name.

If your business will not need/use any Subledgers[6], skip to General Ledger (p.59).

How you wish to develop and assign these unique account numbers is entirely up to you. However you will want to ensure that the numbers are distinct enough so they are not confused with the COA Account Numbers or amongst customer and vendor account numbers. Maintain separate and current Master Lists for Customers and Vendors and keep them in a secure location to meet information privacy requirements.

Example 6-2: Assigning Unique Account Numbers for Various Account Records

The following is just one method for assigning numbers: (1) The first letter in a unique account number identifies whether the account holder is a customer or vendor (supplier); and (2) numbers are assigned in order of availability using the next available number from the applicable Master List. *Use increments of twenty when numbering so there is less chance of typographical errors;* and (3) two or three letters are taken from the account holder's name.

Customers:	Jess James	**C**020JJA
Vendor:	Staples	**V**060STA

---

[6] E.g., businesses that does not have Accounts Receivables, Accounts Payables, Payroll/Employees, Partners, Inventory or other type of COA Control Accounts

Example 6-3:

MASTER LIST

COA Control Account Name:	Accounts Receivable
COA Control Account Number:	1030

Account Record Name		Account Record No.	Mailing Address	Business HST Registration No./SIN *(if applicable)*
Last	**First**			
Bannon	Jeffrey	C020JBA	1234 Livehere Lane, Greenstone ON P0T 1M0	
Smith	Donald	C040DSM	567 Anywhere Place, Greenstone ON P0T 1M0	
Bastian	Karen	C060KBA	891 Overhere Crescent, Greenstone ON P0T 1M0	

Organization Requirements for a Subledger

The following requirements apply to the Subledger Sheet:

- Each Sheet should identify the **Account Number, Account Name** and current **Address**
- Each Sheet for **each Account record** is numbered in ascending order starting with 1
- Identification area for Terms of Credit
- Identification area for Credit Limit Amount
- A post reference column
- A Debit column
- A Credit column
- A Balance column(s)

A Subledger sheet will look the same as or similar to the one shown below. It may have only one account column under Balance. *The format with two amount columns under Balance is preferred as one can see at a glance if the Balance is a Debit balance or a Credit balance which makes work of reconciliation and financial statement preparations easier and less time consuming.*

Example 6-4: Subledger

SUBLEDGER SHEET

Account No:		Sheet No:	
Name:		Terms:	
Address:		Credit Limit:	

Date	Description	Journal Ref.	Transaction		Balance	
			Debit	**Credit**	**Debit**	**Credit**
(year)						
	First Entry or Balance Forward					

**<u>ALWAYS</u> RECORD TRANSACTION ENTRIES
INTO JOURNALS BEFORE POSTING TO SUBLEDGERS!**

Accounts Receivables Subledger

Posting information from Journals into the Accounts Receivables Subledger should be done daily. Transactions that were entered into the Sales Journal and the Cash Receipts Journal are entered into the Accounts Receivables Subledger in the order shown below:

1.   All Sales made on Credit from the Sales Journal

Example 6-5: Posting of Credit Sale from Sales Journal

SALES JOURNAL   PAGE SJ1

2022				1030 Accounts Receivable (Debit)	4010 Revenue - Training (Credit)	4020 Revenue - Consulting (Credit)	2020 HST Charged on Sales (Credit)	
DATE	Customer	Invoice #	Terms					Post Ref.
1 Jan 15	Jim's Towing	229	N30	1 1 3 0 00		1 0 0 0 00	1 3 0 00	C020JT
2	*Enter next transaction here*							

SUBLEDGER SHEET - ACCOUNTS RECEIVABLE

Account No:	C020JT
Name:	Jim's Towing
Address:	123 Somewhere Lane, Greenstone, ON P0T 1M0

Sheet No:	1
Terms:	Net 30
Credit Limit:	$3,500.00

	Date	Description	Journal Ref.	Transaction Debit	Transaction Credit	Balance Debit	Balance Credit
1	2022	Beginning balance:				0 00	
2	Jan 15	Invoice 229	SJ1-1	1 1 3 0 00		1 1 3 0 00	

Through use of colour and direction of arrows, observe how the information is taken from the Sales Journal and posted into to the Accounts Receivable Subledger. Once all the transaction information is posted the Post Reference column and Journal Reference columns are completed by cross-referencing as shown by the orange arrows. Cross-referencing of line numbers (see orange dashed line) is optional and only appropriate for handwritten books. Once completed a Posted stamp is placed on the Source Document and it can then be filed.

POSTED
SJ1-1

Source Document

All Sales made on Credit from the Sales Journal **should be posted before posting** Payments **Received on Account** from the Cash Receipts Journal**.**

2.   All Payments Received on Account from the Cash Receipts Journal

Example 6-6: Posting of Payment Received on Account from Cash Receipts Journal

CASH RECEIPTS JOURNAL   PAGE   CRJ 1

2022				1011	2020	1030	4010	4020			
					HST Charged	Accounts	Revenue -	Revenue -			
		Invoice	Cash Account	on Sales	Receivable	Training	Consulting	Miscellaneous	Miscellaneous	
DATE	Description	#	(Debit)	(Credit)	(Credit)	(Credit)	(Credit)	Description	(Credit)	Post Ref.
1	Feb 13	OSPBP C320OS	267	2 0 0 0 00		2 0 0 0 00					C320OS
2											

SUBLEDGER SHEET - ACCOUNTS RECEIVABLE

Account No:	C320OS		Sheet No:	1
Name:	Ontario School of Pickle Ball Players		Terms:	Net 30
Address:	424 Pickle Lane, Greenstone, ON P0T 1M0		Credit Limit:	$5,000.00

	Date	Description	Journal Ref.	Transaction Debit	Transaction Credit	Balance Debit	Balance Credit
1	2022	Beginning balance:				0 00	
2	Jan 15	Invoice 267	SJ1-19	4 5 0 0 00		4 5 0 0 00	
3	Feb 13	Payment on Account Invoice 267	CRJ1-1		2 0 0 0 00	2 5 0 0 00	

Through use of colour and direction of arrows, observe how the transaction information is posted (transferred) from the Cash Receipts Journal to the Accounts Receivable Subledger. Only once all the transaction information is posted are the Post Reference and Journal Reference columns completed by cross-referencing as shown by the orange arrows. Cross-referencing of line numbers (see orange dashed line) is optional and only appropriate for handwritten books. Once completed a Posted stamp is placed on the Source Document as previously instructed and filed.

POSTED
CRJ1

Source Document

All Payments Received on Account from the Cash Receipts Journal **should be posted after posting of all Sales made on Credit** from the Sales Journal has been completed.

Accounts Payable Subledger

Posting information from Journals into the Accounts Payable Subledger should be done daily. Transactions that were entered into the Purchases Journal and the Cash Disbursements Journal are posted into the Accounts Payable Subledger in the order shown below:

1.   <u>All</u> **Purchases from Suppliers made on Credit from the Purchases Journal**

Example 6-7: Posting of Purchase on Credit from the Purchases Journal

PURCHASES JOURNAL   Page **PJ1**

2022			2010	2040	Acct #	Acct #			
DATE	Supplier/Vendor	Invoice #	Accounts Payable (Credit)	HST Paid on Purchases (Debit)	Expense Acct. Name	Expense Acct. Name	Miscellaneous Description	Miscellaneous (Debit)	Post Ref.
Feb 1	David Smith	57	1 6 9 5 00	1 9 5 00			Profess. Fees	1 5 0 0 00	5300

SUBLEDGER SHEET - ACCOUNTS PAYABLE

Account No:	V040DS		Sheet No:	1
Name:	David Smith Accounting		Terms:	Net 30 Days
Address:	123 Greenback Street, Greenstone, ON P0T 1M0		Credit Limit:	$3,000.00

Date	Description	Journal Ref.	Transaction Debit	Transaction Credit	Balance Debit	Balance Credit
2022	Opening Balance					0 00
Feb 1	Invoice 57	PJ1-1		1 6 9 5 00		1 6 9 5 00

Through use of colour and direction of arrows, observe how the transaction information is posted from the Purchases Journal to the Accounts Payable Subledger. Only once all the transaction information is posted are the Post Reference columns completed by cross-referencing as shown by the orange arrows. Cross-referencing of line numbers (see orange dashed line) is optional and only appropriate for handwritten books. Once completed a Posted stamp is placed on the Source Document as previously instructed and then it can be filed.

POSTED *PJ1-1*

Source Document

All Purchases made on Credit from the Purchases Journal **should be posted before posting Payments on Account to Suppliers** from the Cash Disbursements Journal.

2.   All Payments on Account Paid to Suppliers from the Cash Disbursements Journal

Example 6-8:   On February 27, 2022, Henry from A2Z issues a cheque numbered 144 in the amount of $1,695.00 to David Smith Accounting for payment of Invoice No.57.

Exercise: (1) analyze the above transaction on a piece of paper; (2) record the transaction to the Cash Disbursements Journal provided below; and (3) post the transaction into the Accounts Payable Subledger. While it may be tempting just to jump to (2), ensure to do all of these three tasks as would be the normal process in daily bookkeeping. Do not read further until (3) has been fully completed.

CASH DISBURSEMENTS JOURNAL   **PAGE CDJ 1**

2022			1011	2040	2010	1040	#			
DATE	Cheque #	Description	Cash Account (Credit)	HST Paid on Purchases (Debit)	Accounts Payable (Debit)	Prepaid Expenses (Debit)	Account Name (Debit)	Miscellaneous Description	Miscellaneous (Debit)	Post Ref.
1 Jan 20	143	Security 4U - Prof. Insurance	1 4 4 0 75	1 6 5 75		1 2 7 5 00				
2										

SUBLEDGER SHEET - ACCOUNTS PAYABLE

Account No: **V040DS**		Sheet No:	1
Name: David Smith Accounting		**Terms:**	Net 30 Days
Address: 123 Greenback Street, Greenstone, ON P0T 1M0		**Credit Limit:**	$3,000.00

Date	Description	Journal Ref.	Transaction Debit	Transaction Credit	Balance Debit	Balance Credit
1 **2022**	Opening Balance					0 00
2 Feb 1	Invoice 57	PJ1-1		1 6 9 5 00		1 6 9 5 00
3						
4						

Analysis:

Step 1: Value given: money, Value received: debt for accounting services received is paid

Step 2: $1,695.00

Step 3: Two accounts involved: 1011 Cash Account (ASSET) and 2010 Accounts Payable (LIABILITIES)

Step 4: the transaction will decrease the balance of 1011 Cash Account and decrease the balance of 2010 Accounts Payable account

Step 5: To decrease the account balance of the 1011 Cash Account Credit it $1,695.00, to decrease the balance of the 2010 Accounts Payable Account Debit it $1,695.00

Step 6: Date: February 22, 2022

Explanation: Cheque 144 issued for Invoice 57, David Smith Accounting

	1011 Cash Account		2010 Accounts Payable	
	Debit	Credit	Debit	Credit
		$1,695.00	$1,695.00	

Step 7: Debits = Credits, passes double-entry test

CASH DISBURSEMENTS JOURNAL   **PAGE CDJ 1**

2022 DATE	Cheque #	Description	1011 Cash Account (Credit)	2040 HST Paid on Purchases (Debit)	2010 Accounts Payable (Debit)	1040 Prepaid Expenses (Debit)	# Account Name (Debit)	Miscellaneous Description	Miscellaneous (Debit)	Post Ref.
1 Jan 20	143	Security 4U - Prof. Insurance	1 4 4 0 75	1 6 5 75		1 2 7 5 00				
2 Feb 27	144	David Smith Acct.	1 6 9 5 00		1 6 9 5 00					V040DS

SUBLEDGER SHEET - ACCOUNTS PAYABLE

Account No:	V040DS
Name:	David Smith Accounting
Address:	123 Greenback Street, Greenstone, ON P0T 1M0

Sheet No:	1
Terms:	Net 30 Days
Credit Limit:	$3,000.00

	Date	Description	Journal Ref.	Transaction Debit	Transaction Credit	Balance Debit	Balance Credit
1	2022	Opening Balance					0 00
2	Feb 1	Invoice 57	PJ1-1		1 6 9 5 00		1 6 9 5 00
3	Feb 27	Paid Inv. 57, Cheque 144	CDJ1-2	1 6 9 5 00			0 00

Using colour and direction of arrows, observe how the transaction information is posted from the Cash Disbursements Journal to the Accounts Payable Subledger for Vendor David Smith Accounting. Once all the transaction information is posted the Post Reference and Journal Reference columns are completed by cross-referencing as shown by the orange arrows. Cross-referencing of line numbers (see orange dashed line) is optional and only appropriate for handwritten books. Once completed a Posted stamp is placed on the Source Document and filed.

POSTED
CDJ1-3

Inv. 57
Source
Document
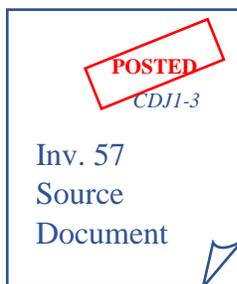
General Ledger

The General Ledger is a <u>book</u> *(binders work nicely)* that contains information on individual Accounts from the COA. <u>Each COA Account</u> has a separate Sheet (page) where transactions are recorded, and a running balance is kept. **Account sheets should be filed within the General Ledger book in the same order as they appear in the COA.**

Organization Requirements for the General Ledger

The following requirements apply to the General Ledger:

- Each Sheet should identify the **Account Number** and **Account Name**
- Each sheet number for **each Account record** is numbered in ascending order starting with Sheet 1
- A date column
- A column for description
- A journal reference column
- A Debit column
- A Credit column
- A Balance column

A General Ledger sheet will look the same as or very similar to the one shown below. It may have only one account column under Balance. The two amount columns under Balance are preferred as you can see at a glance if the Balance is a Debit balance or a Credit balance and, it makes quicker work when preparing financial reports and statements.

Example 6-9: General Ledger – A2Z Cash Account

GENERAL LEDGER SHEET

Sheet No:	1
Account No:	1011

Account: Cash Account

Date	Description	Journal Ref.	Transaction Debit	Transaction Credit	Balance Debit	Balance Credit
(year)						
	First Entry or Balance Forward					

Specific Order for Posting
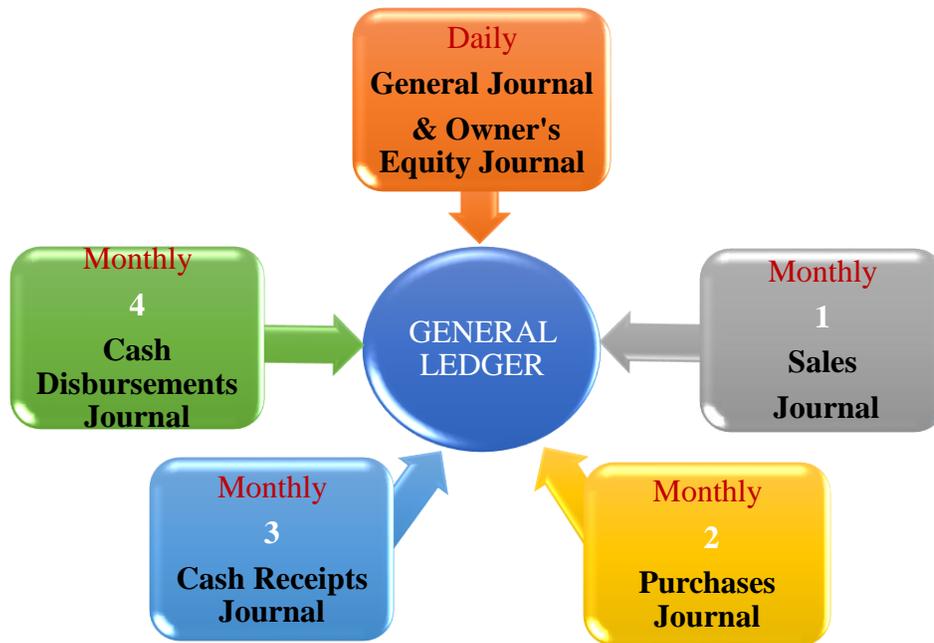
Daily:

- Individual transactions from the General Journal and the Owner's Equity Journal are posted separately to the General Ledger and Subledgers

End of Each Month:

1. Transactions from the Miscellaneous Columns entries of special journals are separately posted into the General Ledger from each of the special journals in the following order: Sales Journal, Purchases Journal, Cash Receipts Journal, and Cash Disbursements Journal

2. Column **totals** from each of the Special Journals are posted into the General Ledger in the following order: Sales Journal, Purchases Journal, Cash Receipts Journal, and Cash Disbursements Journal

The Steps and order for posting to the General Ledger are as follows:

1.   **Individual entries from** the **General Journal** and from the **Owner's Equity Journal** are posted daily in the order that they occurred.

Example 6-10: Posting of Individual Entry from Owner's Equity Journal to General Ledger

OWNER'S EQUITY JOURNAL   PAGE 1

	2022 DATE		ACCOUNT	POST. REF.	DEBIT					CREDIT				
1	Jan	1	Bank Account (Cash Account)	1011	10	0	0	0	00					
2			Owner's Contribution							10	0	0	0	00
3			To record Owner's Investment in Business											

GENERAL LEDGER SHEET

Account: Cash Account

Sheet No.   1

Account No.   1011

2022 DATE	Description	Journal Ref.	Transaction		Balance	
			Dr	Cr	Dr	Cr
Jan-01	Owner Deposit	OEJ1	10,000.00		10,000.00	

When posting information from a Journal into a General Ledger Sheet make sure the account is posted the same way (Credit) or (Debit).

Through the use of colour and direction of arrows, observe how information from line 1 of the OEJ1 is posted into the General Ledger Cash Account 1011 above. Once posted, Account 1011 is entered into the Post Ref. column of the OEJ1 (line 1) to indicate the transaction has been posted.

Similarly observe below how information from line 2 of the OEJ1 is posted into the General Ledger Owner's Contribution Account 3000 and, how once posted Account 3000 has been entered into the Post Ref. column of the OEJ1

OWNER'S EQUITY JOURNAL

PAGE 1

	2022 DATE		ACCOUNT	POST. REF.	DEBIT	CREDIT
1	Jan	1	Bank Account (Cash Account)	1011	10 0 0 0 00	
2			Owner's Contribution	3000		10 0 0 0 00
3			To record Owner's Investment in Business			

GENERAL LEDGER SHEET

Account: Owner's Contribution

Sheet No.	1
Account No.	3000

2022 DATE	Description	Journal Ref.	Transaction Dr	Transaction Cr	Balance Dr	Balance Cr
Jan-01	Investment	OEJ1		10,000.00		10,000.00

Continue to observe in the next illustration how line 5 of the OEJ1 has been posted to the HST Paid on Purchases General Ledger Sheet and the cross-referencing that occurs in the Post Ref and Journal Ref columns of the OEJ and GL Sheet respectively.

OWNER'S EQUITY JOURNAL

PAGE 1

	2022 DATE		ACCOUNT	POST. REF.	DEBIT	CREDIT
1	Jan	1	Bank Account (Cash Account)	1011	10 0 0 0 00	
2			Owner's Contribution	3000		10 0 0 0 00
3			To record Owner's Investment in Business			
4						
5	Jan	12	HST Paid on Purchases	2040	2 60	
6			Office Supplies		1 9 99	
7			Owner's Contribution			2 2 59
8			To record Owner purchase for business			

OEJ1 – Line 5

GENERAL LEDGER SHEET

Account: HST Paid on Purchases

Sheet No.	1
Account No.	2040

2022 DATE	Description	Journal Ref.	Transaction Dr	Transaction Cr	Balance Dr	Balance Cr
Jan-12	HST Paid by Owner	OEJ1	2.60		2.60	

TASK: Continue to Post Lines **6** and **7** of the OEJ1 into the General Ledger Sheets provided below. Do not forget to cross-reference into the Post Ref. Column of the OEJ once you have completed posting a transaction.

<div align="center">

OWNER'S EQUITY JOURNAL   PAGE _1_

</div>

	2022 DATE		ACCOUNT	POST. REF.	DEBIT				CREDIT		
4											
5	Jan	12	HST Paid on Purchases	2040		2	60				
6			Office Supplies		1	9	99				
7			Owner's Contribution						2	2	59
8			To record Owner purchase for business								

Post: OEJ1 – Line 6

GENERAL LEDGER SHEET

Account:

Sheet No.
Account No.

2022 DATE	Description	Journal Ref.	Transaction Dr	Cr	Balance Dr	Cr

Post: OEJ1 – Line 7

GENERAL LEDGER SHEET

Account: Owner's Contribution

Sheet No.	1
Account No.	3000

2022 DATE	Description	Journal Ref.	Transaction Dr	Cr	Balance Dr	Cr
Jan-01	Investment	OEJ1		10,000.00		10,000.00

Once completed compare your Ledger sheets to those below:

OWNER'S EQUITY JOURNAL   PAGE 1

	2022 DATE		ACCOUNT	POST. REF.	DEBIT					CREDIT				
1	Jan	1	Bank Account (Cash Account)	1011	10	0	0	0	00					
2			Owner's Contribution	3000						10	0	0	0	00
3			To record Owner's Investment in Business											
4														
5	Jan	12	HST Paid on Purchases	2040				2	60					
6			Office Supplies	5200			1	9	99					
7			Owner's Contribution	3000								2	2	59
8			To record Owner purchase for business											

OEJ1 – Line 6

GENERAL LEDGER SHEET

Account: Office Supplies

Sheet No.	1
Account No.	5200

2022 DATE	Description	Journal Ref.	Transaction Dr	Cr	Balance Dr	Cr
Jan-12	Owner Purchase	OEJ1	19.99		19.99	

OEJI – Line 7

GENERAL LEDGER SHEET

Account: Owner's Contribution

Sheet No.	1
Account No.	3000

2022 DATE	Description	Journal Ref.	Transaction Dr	Cr	Balance Dr	Cr
Jan-01	Investment	OEJ1		10,000.00		10,000.00
Jan-12	Purchase of Supplies	OEJ1		22.59		10,022.59

Observe how the January 12th transaction for the Owner's Purchase of Supplies in the amount of $22.59 was written into the next available line on the existing General Ledger Sheet for Owner's Contribution and the balance was adjusted accordingly. Also, as each transaction is posted the Post Ref. column in the OEJ1 for each of lines 1, 2, 5, 6, and 7 was cross-referenced to the applicable account. A blank Post Ref column typically flags that the transaction has not yet been posted into the General Ledger.

Recall it was shared that a small business may not have an OEJ. Rather, the Owner may choose to enter owner equity transactions into their General Journal. If your business does not keep a separate journal for Equity transactions, the title of the journal in the preceding examples would be General Journal. Otherwise, the process for transfer of information posted into the General Ledger remains the same as shown with exception that the cross-referencing would use GJ instead of OEJ. Remember to post entries from the General Journal and the Owner's Equity Journal daily to the General Ledger <u>in the order that they occur to ensure that the transactions are posted in chronological order by date regardless of which of the two journals the transactions originate from</u>.

After the transactions are fully posted, the Post Ref. columns in the Journal and the General Ledger Sheets should be complete displaying accurate cross-references between the Journal and the General Ledger Account Sheets. Once the transaction information from the Source Document has been entered into the General Journal or the Owner's Equity Journal, the Source Document can be stamped "posted" and filed.

The "process" is the same for posting entries from the General Journal into the General Ledger and from an Owner's Equity Journal into the General Ledger.

Now we move onto Step 2 of posting which occurs at the end of each month.

2. **Transactions listed** *in* the **Miscellaneous columns from** the **special journals** are **posted separately at the end of each month once the columns have been Footed and Cross-Footed** in the following order:

    i)   from the Sales Journal (if/when applicable)
    ii)   from the Purchases Journal (if/when applicable)
    iii) from the Cash Receipts Journal
    iv) from the Cash Disbursements Journal

Example 6-11: Posting from Miscellaneous Column of Special Journals to the General Ledger

CASH DISBURSEMENTS JOURNAL　　　　　　　　　　　　**PAGE 1**

2022			1011	2040	2010	5100	5200			
DATE	Cheque #	Description	Cash Account (Credit)	HST Paid on Purchases (Debit)	Accounts Payable (Debit)	Office Expenses (Debit)	Office Supplies (Debit)	Miscellaneous Description	Miscellaneous (Debit)	Post Ref.
Jan 4	75	Staples	1 6 3 85	1 8 85			1 4 5 00			
Jan 6	76	Bell Canada	2 7 4 59	3 1 59		2 4 3 00				
Jan 17		Bank Loan Pymt	5 6 2 50					Loan Pymt	5 0 0 00	
								Loan Interest	6 2 50	
Jan 28	77	Emma Gagnon	9 0 4 00		9 0 4 00					
28	78	Mia Jones	2 2 6 00		2 2 6 00					
28	79	Oliver Tremblay	1 0 1 7 00		1 0 1 7 00					
28	80	Harper Davis	6 7 8 00		6 7 8 00					
			3 8 2 5 94	5 0 44	2 8 2 5 00	2 4 3 00	1 4 5 00		5 6 2 50	

SALES JOURNAL　　　　　　　　　　　　**Page 1**

2022				1030	4010	4020	2020			
DATE	Customer	Invoice #	Terms	Accounts Receivable (Debit)	Revenue - Training (Credit)	Revenue - Consulting (Credit)	HST Charged On Sales (Credit)	Miscellaneous Description	Miscellaneous (Credit)	Post Ref.
Jan 1	Erwin Winters	431	N30	5 6 5 00			6 5 00	Misc. Revenue	5 0 0 00	
3	Brian Singh	432	N30	1 1 3 0 00		1 0 0 0 00	1 3 0 00			
4	Janet Jacks	433	N30	1 1 3 00			1 3 00	Misc. Revenue	1 0 0 00	
6	Nigel White	434	N30	2 2 6 00	2 0 0 00		2 6 00			
10	Betty Green	435	N30	7 5 1 45		6 6 5 00	8 6 45			
15	Jeff Hanlin	436	N30	2 2 6 00	2 0 0 00		2 6 00			
15	Keri Hanlin	437	N30	2 2 6 00	2 0 0 00		2 6 00			
27	Al Harper	438	N30	2 2 6 00	2 0 0 00		2 6 00			
31	Lani Kay	439	N30	1 1 3 0 00		1 0 0 0 00	1 3 0 00			
				4 5 9 3 45	8 0 0 00	2 6 6 5 00	5 2 8 45		6 0 0 00	

CASH RECEIPTS JOURNAL　　　　　　　　　　　　　　　　　　　**PAGE 1**

2022 DATE	Description	Invoice #	1011 Cash Account (Debit)	2020 HST Charged on Sales (Credit)	1030 Accounts Receivable (Credit)	4010 Revenue - Training (Credit)	4020 Revenue - Consulting (Credit)	Miscellaneous Description	Miscellaneous (Credit)	Post Ref.
Jan 4	Cash Sales		113 00	13 00				Misc. Revenue	100 00	
15	Erwin Winters	431	565 00		565 00					
15	Nigel White	434	226 00		226 00					
16	Cash Sales		226 00	26 00			200 00			
17	Brian Singh	432	1130 00		1130 00					
21	Janet Jacks	433	113 00		113 00					
28	Keri Hanlin	437	226 00		226 00					
29	Betty Green	435	751 45		751 45					
31	Jeff Hanlin	436	226 00		226 00					
			3576 45	39 00	3237 45		200 00		100 00	

PURCHASES JOURNAL　　　　　　　　　　　　　　　　　　　**Page 1**

2022 DATE	Supplier/Vendor	Invoice #	2010 Accounts Payable (Credit)	2040 HST Paid on Purchases (Debit)	5300 Professional Fees (Debit)	5320 Subcontracting Fees (Debit)	Miscellaneous Description	Miscellaneous (Debit)	Post Ref.
Jan 2	Emma Gagnon	230	904 00	104 00		800 00			
7	Mia Jones	212	226 00	26 00	200 00				
12	Oliver Tremblay	163	1017 00	117 00	900 00				
15	Harper Davis	287	678 00	78 00			Misc Expense	600 00	
19	Henry Bannon	76	1130 00	130 00		1000 00			
23	James Smith	254	226 00	26 00	200 00				
25	Sophia Singh	290	565 00	65 00		500 00			
28	Alex Wilson	124	565 00	65 00		500 00			
			5311 00	611 00	1300 00	2800 00		600 00	

Exercise: Using the General Ledger Sheets provided below, following the proper order for posting, post the transactions from the Miscellaneous Columns in each of the preceding special journals to the General Ledger Sheets for each applicable account. Once you have completed this task compare your General Ledger Sheets to those provided.

HINT: in this second step only the highlighted transactions from the Miscellaneous columns of the special journals are posted to the General Ledger. Make sure to post them in chronological order by date and from the special journals in the order instructed at the top of page 60.

GENERAL LEDGER SHEET

Sheet No:

Account:

Account No:

Date		Description	Journal Ref.	Transaction		Balance	
				Debit	Credit	Debit	Credit

GENERAL LEDGER SHEET

Sheet No:

Account:

Account No:

Date		Description	Journal Ref.	Transaction		Balance	
				Debit	Credit	Debit	Credit

GENERAL LEDGER SHEET

Sheet No:

Account:

Account No:

Date		Description	Journal Ref.	Transaction		Balance	
				Debit	Credit	Debit	Credit

GENERAL LEDGER SHEET

Sheet No:

Account:

Account No:

Date		Description	Journal Ref.	Transaction		Balance	
				Debit	Credit	Debit	Credit

Posting Miscellaneous Columns of SJ to GL Example 8-12

SALES JOURNAL   Page 1

2022 DATE	Customer	Invoice #	Terms	1030 Accounts Receivable (Debit)	4010 Revenue - Training (Credit)	4020 Revenue - Consulting (Credit)	2020 HST Charged On Sales (Credit)	Miscellaneous Description	Miscellaneous (Credit)	Post Ref.
Jan 1	Erwin Winters	431	N30	565 00			65 00	Misc. Revenue	500 00	4999
3	Brian Singh	432	N30	113 0 00		100 0 00	13 00			
4	Janet Jacks	433	N30	113 00			13 00	Misc. Revenue	100 00	4999
6	Nigel White	434	N30	226 00	200 00		26 00			

GENERAL LEDGER SHEET
Account: Miscellaneous Revenue   Sheet No. 1   Account No. 4999

2022 DATE	Description	Journal Ref.	Transaction Dr	Transaction Cr	Balance Dr	Balance Cr
Jan-01	Erwin Winters Inv. 431	SJ1		500.00		500.00
Jan-04	Janet Jacks Inv. 433	SJ1		100.00		600.00

Observe that, by following the proper posting order, the transactions from the Miscellaneous Columns of the SJ were the first to be posted to the GL Sheet for the Miscellaneous Revenue Account 4999 and they were posted in chronological order. Through use of colour and direction of arrows, observe how the transaction information from Miscellaneous Columns in the SJ was posted into the GL Sheet and the subsequent cross-referencing that occurs. The Accounts Receivable side of the transaction will not be dealt with until step 3.

Posting Miscellaneous Columns of PJ to GL Example 6-11

PURCHASES JOURNAL   Page 1

2022 DATE	Supplier/Vendor	Invoice #	2010 Accounts Payable (Credit)	2040 HST Paid on Purchases (Debit)	5300 Professional Fees (Debit)	5320 Subcontracting Fees (Debit)	Miscellaneous Description	Miscellaneous (Debit)	Post Ref.
Jan 2	Emma Gagnon	230	904 00	104 00		800 00			
7	Mia Jones	212	226 00	26 00	200 00				
12	Oliver Tremblay	163	1017 00	117 00	900 00				
15	Harper Davis	287	678 00	78 00			Misc Expense	600 00	5999
19	Henry Bannon	76	113 0 00	13 0 00		100 0 00			

GENERAL LEDGER SHEET
Account: Miscellaneous Expenses   Sheet No. 1   Account No. 5999

2022 DATE	Description	Journal Ref.	Transaction Dr	Transaction Cr	Balance Dr	Balance Cr
Jan-15	Harper Davis Inv. 287	PJ1	600.00		600.00	

Through use of colour and direction of arrows, observe how the transaction information from Miscellaneous Columns in the PJ is posted into the GL Sheet for Miscellaneous Expense Account 5999, and the subsequent cross-referencing that occurs using the Post Ref. and Journal Ref. columns. Accounts Payable and HST Paid on Purchases sides of the transaction will not be dealt with until Step 3.

Posting Miscellaneous Columns of CRJ to GL Example 6-11

CASH RECEIPTS JOURNAL   **PAGE 1**

2022			1011	2020	1030	4010	4020			
DATE	Description	Invoice #	Cash Account (Debit)	HST Charged on Sales (Credit)	Accounts Receivable (Credit)	Revenue - Training (Credit)	Revenue - Consulting (Credit)	Miscellaneous Description	Miscellaneous (Credit)	Post Ref.
Jan 4	Cash Sales		113 00	13 00				Misc. Revenue	100 00	4999
15	Erwin Winters	431	565 00		565 00					

GENERAL LEDGER SHEET

Account: Miscellaneous Revenue

Sheet No.	1
Account No.	4999

2022 DATE	Description	Journal Ref.	Transaction		Balance	
			Dr	**Cr**	**Dr**	**Cr**
Jan-01	Erwin Winters Inv. 431	SJ1		500.00		500.00
Jan-04	Janet Jacks Inv. 433	SJ1		100.00		600.00
Jan-04	Cash Sales	CRJ1		100.00		700.00

Through use of colour and direction of arrows, observe how the information from Miscellaneous Columns in the CRJ are posted into the GL Sheet for Miscellaneous Revenue 4999 and the cross-referencing that occurs using the Post Reference and the Journal Reference columns. The Cash Account and HST Charged on Sales components of the transaction are not posted individually into the General Ledger and will be posted later.

Posting Miscellaneous Columns of CDJ to GL Example 6-11

CASH DISBURSEMENTS JOURNAL   **PAGE 1**

2022 DATE	Cheque #	Description	1011 Cash Account (Credit)	2040 HST Paid on Purchases (Debit)	2010 Accounts Payable (Debit)	5100 Office Expenses (Debit)	5200 Office Supplies (Debit)	Miscellaneous Description	Miscellaneous (Debit)	Post Ref.
Jan 4	75	Staples	16 8 85	1 8 85			15 0 00			
Jan 6	76	Bell Canada	2 7 4 50	3 1 50		2 4 3 00				
Jan 17		Bank Loan Pymt	5 6 2 50					Loan Pymt	5 0 0 00	2060
								Loan Interest	6 2 50	5080
Jan 28	77	Emma Gagnon	1 0 3 00		9 3 4 00					

GENERAL LEDGER SHEET

Account: Loan Payments - Current Year

Sheet No.   1
Account No.   2060

2022 DATE	Description	Journal Ref.	Transaction Dr	Transaction Cr	Balance Dr	Balance Cr
Jan-17	Bank Loan Payment	CDJ1	500.00		500.00	

GENERAL LEDGER SHEET

Account: Interest & Bank Clearinghouse Fees

Sheet No.   1
Account No.   5080

2022 DATE	Description	Journal Ref.	Transaction Dr	Transaction Cr	Balance Dr	Balance Cr
Jan-17	Loan Interest Payment	CDJ1	62.50		62.50	

Through use of colour and direction of arrows, observe how the information from Miscellaneous Columns in the CDJl are posted into the GL Sheet for the Loans Payments – Current Year Account 2060 and the Interest & Bank Clearinghouse Fees Account 5080, and the subsequent cross-referencing that occurs using the Post Ref. and the Journal Ref. columns. The Cash Account component of the transaction is not posted separately into the General Ledger and will be posted later.

Now we move onto Step 3 (the final step) of posting which occurs at the end of each month.

3.   **Total amounts** from all non-Miscellaneous columns from the special journals are <u>posted at the end of each month once the columns have been Footed and Cross-Footed</u> in the following order:

   i)   from the Sales Journal (if applicable)
   ii)   from the Purchases Journal (if applicable)
   iii)   from the Cash Receipts Journal
   iv)   from the Cash Disbursements Journal

In this third step we will complete the posting of all the totaled columns from the special journals into the General Ledger. **It is important to post from the special journals following the order provided above.**

Example 6-12:   Posting Column Totals from Special Journals into the General Ledger

As you review the GL sheets that follow, through the use of colour and direction of arrows, observe how the month total for the account in the first column of each of the special journal was posted to the General Ledger Sheet for that Account. The same process was followed for each of the remaining Accounts with column totals. Further observe how a √ is placed at the bottom of the column once it has been posted to the applicable General Ledger Sheet. Assuming the bookkeeper consistently places the √ after posting, a missing √ typically means that the column total has not been posted to General Ledger.

Posting Column Totals from SJ into the GL Example 6-12

SALES JOURNAL   Page __1__

2022				1030	4010	4020	2020			
DATE	Customer	Invoice #	Terms	Accounts Receivable (Debit)	Revenue - Training (Credit)	Revenue - Consulting (Credit)	HST Charged On Sales (Credit)	Miscellaneous Description	Miscellaneous (Credit)	Post Ref.
31	Lani Kay	439	N30	1 1 3 0 00		1 0 0 0 00	1 3 0 00			
Jan 31				4 5 9 3 45	8 0 0 00	2 6 6 5 00	5 2 8 45		6 0 0 00	
				√	√	√	√			

GENERAL LEDGER SHEET
Account: Accounts Receivable

	Sheet No.	1
	Account No.	1030

2022 DATE	Description	Journal Ref.	Transaction		Balance	
			Dr	Cr	Dr	Cr
Jan-31	Month Sales on Account	SJ1	4,593.45		4,593.45	

GENERAL LEDGER SHEET
Account: Revenue - Training

	Sheet No.	1
	Account No.	4010

2022 DATE	Description	Journal Ref.	Transaction		Balance	
			Dr	Cr	Dr	Cr
Jan-31	Month Sales	SJ1		800.00		

GENERAL LEDGER SHEET
Account: Revenue - Consulting

	Sheet No.	1
	Account No.	4020

2022 DATE	Description	Journal Ref.	Transaction		Balance	
			Dr	Cr	Dr	Cr
Jan-31	Month Sales	SJ1		2,665.00		2,665.00

GENERAL LEDGER SHEET
Account: HST Charged on Sales

	Sheet No.	1
	Account No.	2020

2022 DATE	Description	Journal Ref.	Transaction		Balance	
			Dr	Cr	Dr	Cr
Jan-31	HST on Month Sales	SJ1		528.45		528.45

Posting Column Totals from PJ into the GL Example 6-12

PURCHASES JOURNAL   **Page 1**

2022			2010	2040	5300	5320			
DATE	Supplier/Vendor	Invoice #	Accounts Payable (Credit)	HST Paid on Purchases (Debit)	Professional Fees (Debit)	Subcontracting Fees (Debit)	Miscellaneous Description	Miscellaneous (Debit)	Post Ref.
28	Alex Wilson	124	5 6 5 00	5 5 00			5 0 0 00		
Jan 31			5 3 1 1 00	6 1 1 00	1 3 0 0 00	2 8 0 0 00		6 0 0 00	
			√	√	√	√			

GENERAL LEDGER SHEET   Sheet No.   1
Account: Accounts Payable   Account No.   2010

2022 DATE	Description	Journal Ref.	Transaction Dr	Cr	Balance Dr	Cr
Jan-31	Month Payables	PJ1		5,311.00		5,311.00

GENERAL LEDGER SHEET   Sheet No.   1
Account: HST Paid on Purchases   Account No.   2040

2022 DATE	Description	Journal Ref.	Transaction Dr	Cr	Balance Dr	Cr
Jan-31	HST on Month Purchases	PJ1	611.00		611.00	

GENERAL LEDGER SHEET   Sheet No.   1
Account: Professional Fees   Account No.   5300

2022 DATE	Description	Journal Ref.	Transaction Dr	Cr	Balance Dr	Cr
Jan-31	Month Purchases	PJ1	1,300.00		1,300.00	

GENERAL LEDGER SHEET   Sheet No.   1
Account: Subcontracting Fees   Account No.   5320

2022 DATE	Description	Journal Ref.	Transaction Dr	Cr	Balance Dr	Cr
Jan-31	Month Purchases	PJ1	2,800.00		2,800.00	

Posting Column Totals from CRJ into the GL Example 6-12

CASH RECEIPTS JOURNAL   PAGE   1

2022 DATE	Description	Invoice #	1011 Cash Account (Debit)	2020 HST Charged on Sales (Credit)	1030 Accounts Receivable (Credit)	4010 Revenue - Training (Credit)	4020 Revenue - Consulting (Credit)	Miscellaneous Description	Miscellaneous (Credit)	Post Ref.
31 Jeff Hanlin		436	2 2 6 00		2 2 6 00					
Jan 31			3 5 7 6 .45	3 9 00	3 2 3 7 45		2 0 0 00		1 0 0 00	
			√	√	√		√			

GENERAL LEDGER SHEET
Account: Cash Account

Sheet No.	1
Account No.	1011

2022 DATE	Description	Journal Ref.	Transaction Dr	Cr	Balance Dr	Cr
Jan-01	Owner Deposit	OEJ1	10,000.00		10,000.00	
Jan-31	Month Cash Receipts	CRJ1	3,576.46		13,576.46	

GENERAL LEDGER SHEET
Account: HST Charged on Sales

Sheet No.	1
Account No.	2020

2022 DATE	Description	Journal Ref.	Transaction Dr	Cr	Balance Dr	Cr
Jan-31	HST on Month Sales	SJ1		528.45		528.45
Jan-31	HST on Month Credit Sales	CRJ1		39.00		567.45

GENERAL LEDGER SHEET
Account: Accounts Receivable

Sheet No.	1
Account No.	1030

2022 DATE	Description	Journal Ref.	Transaction Dr	Cr	Balance Dr	Cr
Jan-31	Month Sales on Account	SJ1	4,593.45		4,593.45	
Jan-31	Month Pymts Rec'd on Acct	CRJ1		3,237.45	1,356.00	

GENERAL LEDGER SHEET
Account: Revenue - Consulting

Sheet No.	1
Account No.	4020

2022 DATE	Description	Journal Ref.	Transaction Dr	Cr	Balance Dr	Cr
Jan-31	Month Sales	SJ1		2,665.00		2,665.00
Jan-31	Month Cash Sale	CRJ1		200.00		2,865.00

Posting Column Totals from CDJ into the GL Example 6-12

CASH DISBURSEMENTS JOURNAL   PAGE 1

2022 DATE	Cheque #	Description	1011 Cash Account (Credit)	2040 HST Paid on Purchases (Debit)	2010 Accounts Payable (Debit)	5100 Office Expenses (Debit)	5200 Office Supplies (Debit)	Miscellaneous Description	Miscellaneous (Debit)	Post Ref.
Jan 4	75	Staples	165.85	1.85					164.00	
28	79	Oliver Tremblay	1017.00		1017.00					
28	80	Harper Davis	678.00		678.00					
Jan 31			3825.94	50.44	2825.00	243.00	145.00		562.50	
			√	√	√	√	√			

GENERAL LEDGER SHEET
Account: Cash Account

Sheet No.	1
Account No.	1011

2022 DATE	Description	Journal Ref.	Transaction Dr	Transaction Cr	Balance Dr	Balance Cr
Jan-01	Owner Deposit	OEJ1	10,000.00		10,000.00	
Jan-31	Month Cash Receipts	CRJ1	3,576.46		13,576.46	
Jan-31	Month Disbursements	CDJ1		3,825.94	9,750.52	

GENERAL LEDGER SHEET
Account: HST Paid on Purchases

Sheet No.	1
Account No.	2040

2022 DATE	Description	Journal Ref.	Transaction Dr	Transaction Cr	Balance Dr	Balance Cr
Jan-12	HST Paid by Owner	OEJ1	2.60		2.60	
Jan-31	HST on Month Purchases	PJ1	611.00		613.60	
Jan-31	HST Month Cash Purchases	CDJ1	50.44		664.04	

GENERAL LEDGER SHEET
Account: Accounts Payable

Sheet No.	1
Account No.	2010

2022 DATE	Description	Journal Ref.	Transaction Dr	Transaction Cr	Balance Dr	Balance Cr
Jan-31	Month Payables	PJ1		5,311.00		5,311.00
Jan-31	Month Accounts Paid	CDJ1	2,825.00			2,486.00

GENERAL LEDGER SHEET

Sheet No.	1
Account No.	5100

Account: Office Expenses

2022 DATE	Description	Journal Ref.	Transaction Dr	Transaction Cr	Balance Dr	Balance Cr
Jan-31	Month Payments	CDJ1	243.00		243.00	

GENERAL LEDGER SHEET

Sheet No.	1
Account No.	5200

Account: Office Supplies

2022 DATE	Description	Journal Ref.	Transaction Dr	Transaction Cr	Balance Dr	Balance Cr
Jan-12	Owner Purchase	OEJ1	19.99		19.99	
Jan-31	Month Purchases	CDJ1	145.00		164.00	

Congratulations on learning the basics of the third step of the Accounting Cycle. You are making remarkable progress!!!

If you feel that you have gained a good grasp of the material thus far, do congratulate yourself on your accomplishment as you have learned a significant number of bookkeeping processes within a short time. If you find yourself struggling with some areas, congratulate yourself on accomplishing what you have learned so far! As mentioned in the introduction, the instruction in one chapter builds off the instruction in the previous chapter just like building blocks. Before you move onto the next chapter and fourth step in the accounting cycle, I encourage you to go back to the first place where you found yourself starting to struggle. Slow down and re-examine the information and instruction section by section with fresh eyes. If you are still struggling reach out to the Greenstone Economic Development Corporation to see if one of their staff can be of assistance.

It can be argued that the first three stages of the accounting cycle are the hardest to learn as everything is so new. Keep at it and there will come a point when things just click, and it all comes together.

Before moving on to the fourth stage of the accounting cycle, for businesses that will use petty cash, have inventory, and/or payroll, the bookkeeping basics on these specific Accounts have been included in the Appendices to this Guide. Continue with the Appendices applicable to your business first before returning to Chapter 7 – Reconciliation.

CHAPTER 7 –RECONCILATION

The **process** of performing Reconciliation involves **comparing two sets of related records covering the same period to ensure that the figures are correct and in agreement**. Reconciliations are a form of internal control and therefore, the objective of performing reconciliations is to verify the integrity of the business's records and to help prevent overspending. Reconciliations are performed by small businesses at the end of each month. However, depending upon the volume of transactions on the accounts being reconciled, a business may also choose to perform more frequent reconciliations (e.g., daily, weekly, etc.).

The various types of accounts that require reconciliation may include, but are not necessarily limited to:

- Bank Accounts (reconciling Bank Statements with related with COA Bank Accounts)
- Credit Cards (reconciling Credit Card Statements with related with COA Credit Card Accounts)
- Loan Accounts (reconciling Loan Statements with COA Loan Accounts)
- Receivables and Payables (reconciling COA Control Accounts with related Subledgers)

This Chapter will cover Bank Statement Reconciliation in greater detail with illustrations to help you understand this process. Thereafter, it will cover how to reconcile Credit Card Statements. The instruction provided will facilitate understanding of the Reconciliation process which can be similarly applied to other types of accounts. If additional information is required for reconciling other Ledger accounts, please research the internet for instruction on how to perform a reconciliation for each type of ledger account you require for your business.

Bank Statement Reconciliation

Bank Statement Reconciliation involves **verifying that the transactions and balance in a business's Ledger are correct by comparing them to the bank statement** of the business for the time period under review. If there is more than one bank account, the reconciliation for each bank account should be done separately. Some of the more commonly seen errors, omissions, or mismatches concerning a business's financial records and the Bank Statement for the same period include:

- Cheques that have not yet been received by or processed by the bank
- Banking transactions that have not yet been recording in the business's books
- Errors made in recording by the business or the bank

It is important to carry out Bank Statement Reconciliation to reveal calculation mistakes, missed payments, theft and fraud, as well as to help track Accounts Receivables and Accounts Payables.

Information required to perform the Bank Statement Reconciliation includes as applicable to the period being reviewed:

- Bank Statement
- Bank Fees (from Bank Statement)
- Bank Interest Earned (from Bank Statement)
- Cancelled/Voided Cheques
- Outstanding Cheques (cheques not yet processed by the Bank)
- Journals: Cash Disbursements (for payments), Cash Receipt (for deposits), and General Journal (for any bank related transactions that were not entered in the CRJ or CDJ)

Research Bank Reconciliation Forms on the internet and copy a format that will work for your business, or use the format in the example below for A2Z Consulting. When creating your Bank Reconciliation Form include as much information as possible (i.e., the name of the Business, COA Account Name, Account No. and the Bank Account Number assigned by the Bank) within the template so that you do not have to spend time entering static information each time a Reconciliation is performed.

Example 7-1: Bank Statement Reconciliation Form – A2Z Consulting

A2Z Consulting
Reconciliation of Bank Statement
As at [Date]

Account Description:	Cash Account	Prepared By:	(name)	Date:
Account Number:	1011	Reviewed By:	(name)	Date:
Bank Account Number:	1000282193			

Company Records		Bank Statement	
Balance Per General Ledger:	$	Balance per Bank Statement:	$
Add: (Description) (Amount)		Add: (Description) (Amount)	
	$		$
Subtract:		Subtract:	
	Balance: $		Balance: $

Adjusting Entries Required to Balance

Account #	Account Name	Description	Dr/Cr	Debit Amount	Credit Amount
			Total:	$	$

Observe how one side of the Bank Reconciliation Form is used to capture information from/for the Company Records and the other side of the sheet is used to capture information from/for the Bank Statement.

To perform a Reconciliation using the Bank Statement Reconciliation Form shown in the example above, Henry Chow, Owner of A2Z performs the following steps:

1.   Completes the top information portion of the form ensuring that all information is entered:

<div align="center">
A2Z Consulting
Reconciliation of Bank Statement
As at March 31, 2022
</div>

Account Description:	Cash Account	Prepared By:	Henry Chow	Date:	10-Apr-22
Account Number:	1011	Reviewed By:	(name)	Date:	
Bank Account Number:	1000282193			

If you have someone else performing the Reconciliation, that person's name would be entered beside "Prepared By" and after reviewing the Reconciliation, you would enter your name beside "Reviewed By" together with the date you reviewed the Reconciliation.

2.   Enters the Bank Account Balance from the General Ledger Sheet for the Cash Account 1011:

Balance Per General Ledger: $6,259.87

AND,

Enters ending Bank Account Balance as of March 31, 2022 from the Bank Statement for the Bank Account Number 1000282193 which represents the COA Cash Account 1011.

Balance per Bank Statement: $6,058.14

3.   Compares all the deposits on the Bank Statement to the transactions recorded in the Cash Account Ledger to identify any deposits showing on the Bank Statement that are not recorded in the Ledger. Henry notes a deposit made March 15, 2022, in the amount of $3.27 for bank interest earned is missing from the Ledger. He then reviews the Cash Receipts Journal (CRJ) and the General Journal (GJ) to see if the bank interest was recorded in the Journal but not the Ledger.

Finding no entry for the bank interest earned in the Journals, Henry records this deposit onto the Reconciliation form on the left – Company Records side and then adds $3.27 to the balance of the General Ledger ($6,259.87) and records the total as follows:

Add:	(Description)	(Amount)
	March Bank Interest Earned	$3.27
		3.27
		$6,263.14

Then Henry analyzes the transaction on a separate piece of paper and notes the adjusting entries that he will need to make on the bottom of his Reconciliation form as follows:

Account #	Account Name	Description	Dr/Cr	Dr. Amount	Cr Amount
1011	Cash Account	Mar 15 Bank Interest Earned	Dr	$3.27	
4030	Revenue - Interest	Mar 15 Bank Interest Earned	Cr		$3.27

4. Compares all the withdrawals on the Bank Statement to the transactions recorded in his Cash Account Ledger to identify any missing withdrawals. Henry notes that in March he missed a reccurring monthly entry for Bank Service Fees on his Cash Account in the amount of $5.00. Henry then verifies the Cash Disbursement Journal (CDJ) and GJ to see if the Bank Services Fees were entered into a Journal but not posted to the General Ledger.

Finding no record of the Bank Services Fees in the Journals, Henry writes this withdrawal onto the Reconciliation form on the left – Company Records side of the form and then subtracts $5.00 from the adjusted General Ledger Sheet balance of $6,263.14 and records the new adjusted Bank Account balance as follows:

Subtract:	March Bank Service Fee	$5.00
		5.00
	Balance:	$6,258.14

Then Henry analyzes the transaction on a separate piece of paper and notes the entries that he will need to make on the bottom of his Reconciliation form as highlighted in yellow:

Account #	Account Name	Description	Dr/Cr	Debit Amount	Credit Amount
1011	Cash Account	March Bank Interest Earned	Dr	$3.27	
4030	Revenue-Interest	March Bank Interest Earned	Cr		$3.27
5080	Interest & Bank Fees	March Bank Service Fee	Dr	$5.00	
1011	Cash Account	March Bank Service Fee	Cr		$5.00

5. Next Henry reviews all the transactions on the Bank Statement looking for entries that look unusual or suspicious for his business activities or suspicious. Henry wants to ensure that he or his contracted back-up bookkeeper have not made any errors and that the Bank has not made any errors that have affected his Cash Account. For example, a cheque that is

recorded in his books as void should not appear as a withdrawal on the bank account or an unusual withdrawal with respect to a cheque issued to customer. In the latter case unless Henry issued a refund to a customer for services rendered, it is possible that a human error was made confusing a customer for a vendor or some other error. In such a situation, Henry would need to investigate further and if such an error was made, request return of the funds from his customer and issue payment to his supplier who is likely waiting for payment of an invoice. He would need to make the appropriate adjustments in his books to rectify the error.

For the purposes of this Reconciliation example, Henry finds no unusual or suspicious activities in the entries on the Bank Statement and corresponding cancelled cheques.

At this point Henry's partially completed Bank Statement Reconciliation Form looks as follows:

<div align="center">

A2Z Consulting
Reconciliation of Bank Statement
As at March 31, 2022

</div>

Account Description:	Cash Account	Prepared By: Henry Chow Date: 10-Apr-22
Account Number:	1011	Reviewed By: (name) Date:
Bank Account Number:	1000282193	

Company Records		Bank Statement	
Balance Per General Ledger:	$6,259.87	Balance per Bank Statement:	$6,058.14
Add: (Description) (Amount)		Add: (Description) (Amount)	
March Bank Interest Earned $3.27			
	3.27		
	$6,263.14		
Subtract: March Bank Service Fee $5.00		Subtract:	
	5.00		
Balance:	$6,258.14	Balance:	

<div align="center">Adjusting Entries Required to Balance</div>

Account #	Account Name	Description	Dr/Cr	Debit Amount	Credit Amount
1011	Cash Account	March Bank Interest Earned	Dr	$3.27	
4030	Revenue-Interest	March Bank Interest Earned	Cr		$3.27
5080	Interest & Bank Fees	March Bank Service Fee	Dr	$5.00	
1011	Cash Account	March Bank Service Fee	Cr		$5.00
			Total:		

Observe how the Adjusted Cash Account Balance on the Company Records side in the amount of $6,258.14 does not balance to the Bank Account balance on the Bank Statement. Henry continues with the next step in Reconciliation process.

6. Henry continues by comparing his Cash Account Ledger to the Bank Statement looking for any increases (deposits) in the Ledger that are not appearing on the Bank Statement.

Henry identifies that on March 31,2022, a cheque in the amount of $200.00 was recorded that is not showing on the Bank Statement. Because the cheque was deposited on March 31, 2022, it is likely that it had not been processed by the Bank before the Bank Statement was produced.

Henry enters the $200.00 deposit onto the Reconciliation form on the right – Bank Statement side and adds the missing deposit to the Bank Statement balance of $6,058.14 creating an adjusted Bank Statement Balance of $6.258.14 as illustrated below.

Add:	(Description)	(Amount)
	Deposit in Transit	$200.00
		200
		$6,258.14

There are no adjusting entries required for the business's books as the deposit has already been recorded. Henry will monitor the Bank Statement for the following month to ensure that the $200.00 was deposited.

Although at this point it appears that Henry has reconciled the accounts, as the adjusted balances for the company records and the bank statement appear to be balanced at $6,258.14, the Reconciliation process is not quite finished.

7. Next Henry will again compare the Cash Account Ledger with the Bank Statement to look for any withdrawals that the company has recorded which do not appear on the Bank Statement. Continuing with the Reconciliation process is a form of internal control to ensure the integrity of the books as Henry is not the only person who performs his bookkeeping. The purpose of this Step is two-fold: 1) for Henry to scan his company records for any unusual or suspicious withdrawals that have not yet been processed by the Bank and 2) to look for any cheques that have been written and recorded in the Cash Account Ledger that have not yet been cleared by the Bank. If Henry had found outstanding cheques he would note them separately on the right – Bank Statement side of the Reconciliation form under Subtract and further adjust the bank balance. At that point the two account balances would not total, and Henry would need to start troubleshooting for errors.

Finding no anomalies or outstanding cheques in his comparison, Henry completes the Reconciliation Form as follows:

<div align="center">

A2Z Consulting
Reconciliation of Bank Statement
As at March 31, 2022

</div>

Account Description:	Cash Account		Prepared By:	Henry Chow	Date: 10-Apr-22
Account Number:	1011		Reviewed By:	(name)	Date:
Bank Account Number:	1000282193				

Company Records

Balance Per General Ledger:		$6,259.87
Add: (Description)	(Amount)	
March Bank Interest Earned	$3.27	
		3.27
		$6,263.14
Subtract: March Bank Service Fee	$5.00	
		5.00
Balance:		$6,258.14

Bank Statement

Balance per Bank Statement:		$6,058.14
Add: (Description)	(Amount)	
Deposit in Transit	$200.00	
		200
		$6,258.14
Subtract:		
		nil
Balance:		$6,258.14

Adjusting Entries Required to Balance

Account #	Account Name	Description	Dr/Cr	Debit Amount	Credit Amount
1011	Cash Account	March Bank Interest Earned	Dr	$3.27	
4030	Revenue-Interest	March Bank Interest Earned	Cr		$3.27
5080	Interest & Bank Fees	March Bank Service Fee	Dr	$5.00	
1011	Cash Account	March Bank Service Fee	Cr		$5.00
			Total:	$8.27	$8.27

Note how the Reconciliation has been successfully completed in that (1) the adjusted General Ledger balance of $6,258.14 is the same as the adjusted Bank Statement Balance; and (2) the total amount of Debits and Credits required in the Reconciliation Adjusting Entries balance passing the double-entry test.

Now that Henry has completed the Bank Statement Reconciliation Form, he makes the Adjusting Entries recorded at the bottom the Reconciliation Form in the General Journal and then immediately posts the entries to the applicable General Ledger Sheets following the instructions for entering and posting transactions in Chapter 5 Journals and Chapter 6 Ledgers.

<div align="center">

**NEVER POST ADJUSTING ENTRIES UNTIL THE BANK STATEMENT
RECONCILIATION IS BALANCED**

</div>

Troubleshooting a Bank Statement Reconciliation that Does Not Balance

When the Reconciliation does not balance after completing all the steps in the process, there are several actions that can be taken to identify and resolve the issue:

- Check to make sure that the starting GL Bank Account Balance and the Bank Statement Balance have been accurately recorded onto the Reconciliation Form

- Check the balance at the end of the Bank Account Statement for the previous month to ensure that it is the same amount as the starting balance on the Bank Account Statement that you are reconciling

- Double-check the accuracy of calculations on the Reconciliation Form

- Double-check the accuracy of any amounts written on the Company Records Side of the Reconciliation Sheet under "Add" and "Subtract" with the Bank Statement

- Double-check the accuracy of any amounts written on the Bank Statement Side of the Reconciliation Sheet under "Add" and "Subtract" with the applicable company records

- Double-check to ensure that all the entries on the Bank Statement are already present in the Bank Account Ledger and if not, that each of the missing entries has been <u>accurately</u> entered on the Company Records side of the Reconciliation Form under "Add" or "Subtract" as applicable

- Double-check to ensure that all the entries in the Bank Account Ledger appear on the Bank Statement and if not, that each of the missing entries are for items that have not yet cleared the bank and that each has been <u>accurately</u> written on the Bank Statement side of the Reconciliation Form under "Add" and "Subtract" as applicable

- If the error(s) have not been located after completing the above, transactions posted to the Bank Account Ledger during the month need to be retraced in the following order until the error(s) are located:

  i) Using the Post Ref. column information retrace each entry back to the originating Journal to verify the accuracy of the amount of each transaction posted to the Bank Account Ledger. You are looking for any errors that may have occurred when transferring transaction amounts from the originating Journal to the Ledger

  ii) Verify entries and accuracy of the amounts entered in the originating Journals by retracing each entry back to its Source Document. You are looking for any errors that may have occurred when transferring transaction amounts from the Source Document to the originating Journals.

  iii) Lastly, double-check to ensure: (1) the Source Document had been correctly identified as Source Document in that it contains information representing an actual transaction for "your" business (e.g., is not another company's document that was sent to your business by mistake, or a quote or packaging slip misinterpreted to be an invoice or receipt); and (2) that the transaction analysis was performed correctly.

Credit Card Statement Reconciliation

The period covered within a Credit Card Statement often does not coincide with the days in a specific calendar month. For example, you may perform your reconciliation on the 20th day of each month according to the Statement ending balance date and then must perform another reconciliation for the period between the 20th and the last day of the month to capture all the purchases and payments made as part of your month-end bookkeeping.

> *Develop Reconciliation Forms following the format used for the Bank Reconciliation except change the headings and account information as applicable.*

Depending on the number of different Business Credit Cards used and people using Business Credit Cards (i.e., number of credit card accounts), reconciliation can be time-consuming, tedious and prone to errors so sufficient attention needs to be given to the task.

> *Implementing an Internal Control Policy that prohibits the use of a Business Credit Card for personal purchases will make Reconciliation less time-consuming, tedious, and prone to errors*

If your business does not use a business credit card to make purchases/pay expense, Credit Card Statement Reconciliations do not apply to your business.

A Credit Card Statement Reconciliation requires comparison of Credit Card Statements with the GL Credit Card Account. If your business has one Credit Card Account, you will only have one General Ledger Account. Other information that may become part of the review process include the Cash Disbursements Journal, General Journal, and Source Document Credit Card Receipts.

When performing the Reconciliation:

1. Check to ensure that Credit Card Fees and Interest Charges have been recorded in your Credit Card Ledger Sheet. If they are not currently recorded in your company records, "Add" each Fee/Charge separately on the left – Company Records side of your Reconciliation Form and note the Adjusting Entries at the bottom of the form that will need to be made using the General Journal and applicable Ledger Sheets.

2. Check to ensure that the total amount of the credit card charges for the period covered in the Statement are equal to the total value of the Credit entries within the Credit Card Ledger Sheet <u>covering the same period</u>. If they are not equal, you will need to:

   a) compare each of the entries on the Credit Card Statement with the entries in the Ledger Sheet to identify entries that are included on the Statement but not in the Company Records. If missing Statement entries are found, you will need to look in the Cash Disbursements Journal (CDJ) to see if the missing statement entry was recorded there but not posted in the Ledger Sheet. If the entry is not found in the

CDJ, then you will need to look to see if it was entered in the General Journal (GJ) but not posted in the Ledger Sheet. If the missing statement entry is not located in the GJ either, you will then need to look through your Credit Card receipts to validate the statement entry.

If the receipt is also missing you will need to determine (1) if the Statement entry that is missing in the Company Records was indeed a purchase made by your business in which case it will need to be included in your Reconciliation Form: "Add" if the missing entry is related to a purchase/charge increasing the balance of the account or "Subtract" if the missing entry is related to a payment made to reduce the balance owing on the account; or (2) if the entry represents an error on the Credit Card Statement which you will report to the Credit Card Company for investigation. When a Credit Card Company error has been identified, attach a note identifying the error to the Reconciliation Form and review the transaction again once the Credit Card Company has informed you of the results of its investigation. If the results of the investigation reveal that statement entry was indeed a valid charge made by your business, you will need to "Add" the transaction on the Company Side of the Reconciliation Form and identify corresponding adjusting entries required to the GJ and Credit Card Account Ledger Sheet in the table located at the bottom of the Reconciliation Form. Ask the Credit Card Company to provide you with a copy of the purchase transaction record for your records (e.g., Source Document in lieu of the missing receipt).

b) compare each of the entries in the Company Records with each of the entries on the Credit Card Statement to identify any entries that are included in the Ledger that are not included on the Credit Card Statement. If any missing entries are found, record them separately on the Credit Card Statement side of the Reconciliation Form under "Add" if they will increase the Statement balance, and/or record them separately under "Subtract" if they will decrease the Statement Balance (e.g., a cheque payment issued but not yet processed by the Credit Card company).

c) Review the Credit Card Statement and the Credit Card Account Ledger Sheet, CDJ, and GJ for any unusual or suspicious entries.

The processes of a), b), and c) must be repeated until all Credit Card Statement entries (inclusive of Additions and Subtractions) and the adjusted Credit Card Statement balance matches all information (inclusive of Additions and Subtractions) on Company Records side and the adjusted Credit Card Ledger balance. The total Debits must equal total Credits in the Adjusting Entries table to pass the double-entry test.

3.   Once you have successfully completed the Credit Card Statement Reconciliation, proceed with entering the Adjusting Entries using the General Journal and then post to the Credit Card Ledger Sheet following the processes instructed in Chapter 7 Journals and Chapter 8 Ledgers.

CHAPTER 8 - TRIAL BALANCE

A **TRIAL BALANCE** is a financial report produced at the end of the month or at any other time when financial statements are needed, such as when applying for a grant or bank loan. This report **shows the current balance at a given point in time for each Account in the General Ledger**. The primary objective of a Trial Balance is to check the mathematical accuracy of the postings to the General Ledger which is used to develop financial statements.

Now you may be wondering what is meant by mathematical accuracy. First, the double-entry test applies to the Trial Balance as well. In Chapters 4 through 7 you took great care in learning about Debits and Credits and how to enter them accurately into the books so the amount of all Debits and all Credits within each transaction balance. If those transactions were entered accurately, all the Debits and Credits within your Trial Balance report should balance. Second, when the Debits and Credits balance the report verifies mathematical calculation of Account balances. Unfortunately, what this report cannot do is to identify if an error has been made in journalizing and posting of transactions to wrong accounts.

Time spent upfront double-checking to ensure accuracy when journalizing and posting transactions to ledgers can save time trying to trace problems in the future – particularly when new to bookkeeping.

TRIAL BALANCE shows the **current balance at a given point in time for each Account in the General Ledger.**

IT IS IMPORTANT THAT THE TRIAL BALANCE IS PREPARED ONLY AFTER THE GENERAL LEDGER HAS BEEN UPDATED.

The Trial Balance lists all the accounts contained in the company's Chart of Accounts and provides the balance of each account as of a specific date. The following example illustrates how the information is organized on this report.

Example 8-1:   Trial Balance Format

Company Name
TRIAL BALANCE
As of

Account #	Account Name	Debit	Credit
		$	$
		$	$

Before a Trial Balance Report can be prepared:

1.   all available Source Documents that have not yet been entered should be gathered, journalized, and posted to the General Ledger Accounts and Subledgers. The task at hand is to bring these records as current as possible based on all the information available.

2.   General Ledger Accounts need to be reconciled as covered in Chapter 7.

Completion of the report is relatively simple:

1.   The header of the report is completed entering the Company's Name and the date on which the information is being reported.

2.   Under the Account Number column, list all the account numbers as they appear listed in the Chart of Accounts..

3.   Under the Account Name column list the Account Names that corresponds to the Account Number listed on the same row in the column to the left.

4.   Starting with the first account listed, which should be the first page in the Ledger Book look up the last balance on the General Ledger Sheet and enter it into the appropriate column based on whether the account has a Debit Balance or a Credit Balance. Repeat this process for each account.

5.   Once the General Ledger balances have been entered for all accounts add the Debit column and enter the total at the bottom of the column. Repeat this process for the Credit column.

6.   Ideally the column totals should pass the double-entry test. If the totals balance, place double lines underneath the column totals as shown in the following example:

Example 8-2: Trial Balance – Sparkle Cleaning

Sparkle Cleaning
TRIAL BALANCE
As of January 31, 2022

Account Number	Account Name	Debit	Credit
1000	Bank Account	$ 1,414.50	$
1020	Money in Transit	0.00	
1030	Accounts Receivable	500.00	
1035	Allowance for Doubtful Accounts	0.00	
1040	Prepaid Expenses	100.00	
1510	Equipment	1,200.00	
1511	Accumulated Depreciation Equipment	0.00	
2040	HST Charged on Sales		910.00
2050	HST Paid on Purchases	45.50	
3000	Owner's Contribution		0.00
3010	Owner's Withdrawals	5,000.00	
4010	Revenue		7,000.00
4020	Service Refunds		0.00
5100	Operation Expenses		75.00
5200	Supplies		275.00
5300	Subcontractor Fees		0.00
5999	Miscellaneous Expenses		0.00
		$ 8,260.00	$ 8,260.00

To save time, create a Trial Balance template with your company's name and
all the COA Account Numbers and Account Names so the only information left
to enter is the as of date and GL Account Balances

Troubleshooting a Trial Balance report that Does Not Balance

When Debits and Credit do not equal, the errors will need to be found and corrected. Use the following systematic approach to find the error:

1. Check to see if a mathematical error was made when adding each of the totals. Separately add each of the columns again. If a miscalculation occurred fix the error.

2. Calculate the difference between the two totals by subtracting the Credit total from the Debit total to determine how much the totals are out of balance. This difference can be helpful in finding errors.

    i) Determine if the difference between the two totals can be evenly divided by "9". If so, a transposition error may have occurred where an account balance was entered on the Trial Balance backwards e.g., 540 instead of 450. If the difference cannot be evenly divided by 9 there is no transposition error.

    ii) Look through the GL Account Sheets for balances matching the exact amount of the difference. If you find GL Account balances with the exact amount, check each of them to see if any were missed on the Trial Balance because (a) the account is missing on the report or (b) the account is listed but the balance was not entered

    iii) Divide the difference by "2". Check your Ledger Accounts for that number and then determine if the number was posted in the wrong column as a debit when it should have been posted as a credit, or vice versa. If it was posted in the right column, recalculate that balance to ensure that it was not mistakenly added when it should have been subtracted, or vice versa. For example, the balance is out by $1,200/2 = $600 which is the amount of the error you are looking for. In reviewing the Ledger Accounts for the error, you discover a $600 Accounts Payable was posted as a debit when it should have been posted as a credit. If you discover that this Accounts Payable was accurately posted as a credit, but the Account you find that an error must have been made in the initial calculation with the $600 being subtracted from the account balance instead of being added to it.

    iv) If the error(s) has not been located, you will need to back-track further to your journals and subledgers to ensure transactions were completely entered into the journals or that one side of the transaction was not entered twice. When backtracking through the journals you will be looking for the difference between the two totals in the Trial Balance.

Congratulations on learning how to perform a Trial Balance!

Closing Remarks

The completion of instructions on Trial Balance brings us to the half-way point in the accounting cycle and concludes the instruction in this release of Bookkeeping Basics for Ontario Small Businesses. I hope that you have found the information and instructions helpful in understanding the basics of bookkeeping up to the Trial Balance.

Congratulations!

Learning the technical aspects of bookkeeping is not always easy and you did it! Sincerely, your motivation, patience, effort, and determination in learning to perform manual bookkeeping is commendable. Celebrate your accomplishment! Whether or not you choose to manually keep your financial books, have confidence in the knowledge you are taking away in understanding your business through its fundamental business records.

Carmen

If you have constructive feedback on this release, please do not hesitate to share it with the good people at the GEDC offce who are diligently working to make resources available to support the work and success of local businesses.

APPENDIX 1 – PETTY CASH

Petty Cash is **a small cash fund that is kept on hand and used to make or reimburse for small cash business related purchases** (e.g., stamps, taxi fare, small office supplies, parking, etc.). It is not mandatory a business have a Petty Cash fund however it may be convenient when a business experiences incidental purchases outside of its typical buying processes. As Owner, if you choose to have a Petty Cash fund you will establish a **Float** which represents the **specific amount of cash you wish to keep on hand** (e.g., typically from $50 to $100 for small firms but there is no regulation limiting the amount an Owner can decide on). At any given time, the **Float** should balance as follows:

Petty Cash Float = the amount of all Vouchers/Receipts + remaining cash

Earlier in the booklet the topic of Internal Controls was discussed. To lower the risk of theft, Petty Cash is an asset which an Owner will want to establish a policy for, and procedures such as the amount of the float, who will manage the float, and how it will be managed (e.g., how it is accessed, who can authorize payments from float, how often it will be reconciled, etc.).

When Petty Cash is used there should be a receipt that indicates the date of the purchase, the item that was purchased, and the amount of the purchase, and the amount of any taxes charged. A Petty Cash slip or voucher like the one shown in the example below should be completed and the receipt attached to it for each approved withdrawal from the Petty Cash float. The purchase receipt and voucher are the Source Documents for the transaction and the petty cash transactions, respectively.

Example A1-1: Petty Cash Voucher

Name of Business
PETTY CASH VOUCHER
(Original Itemized Receipt Must Be Attached)

DATE: _____   Voucher #: _____

NAME: _____   _____
            (Print Name)   *(Signature)*

ITEM DESCRIPTION	AMOUNT

                                    Sub Total: _____
Approved by: _____   Tax: _____
            (Signature)   Total: _____

Each transaction is recorded into a **Petty Cash Register** or a **log of all petty cash transactions** by the individual managing the Petty Cash Fund. This Register makes quicker work of the

related bookkeeping when it comes time to recording transactions, reconciling, and replenishing the Float. As an Owner you set a policy as to when you would like the Float reconciled and replenished. To ensure Petty Cash (and potential available tax credits) is not overlooked in bookkeeping, many businesses establish a Petty Cash fund that typically holds sufficient funds to cover incidental purchases in a month and reconcile the fund at the end of each month when other month-end bookkeeping is completed. If collecting HST on Sales and claiming ITC's for HST Paid on Purchases, at the very least the business would want to reconcile Petty Cash to ensure that ITCs are claimed during the period covered by the HST filing.

Example A1-2: Typical Petty Cash Register – Jay's Car Sales

PETTY CASH REGISTER
For the Period January 1 to January 31, 2022

2022			2020	
Date	Description	Price	HST Paid On Purchase (Debit)	Total Amount
05-Jan	Postage Stamps	9.20	1.20	10.40
16-Jan	Coffee Supplies	19.29	2.51	21.80
18-Jan	Courier	12.00	1.56	13.56
22-Jan	Pens	5.29	0.69	5.98
	TOTAL FOR PERIOD	**45.78**	**5.96**	**51.74**

Reconciliation:

Amount of Float:	$100.00
less Cash Remaining in Float	$54.22
Amount needed to Replenish:	45.78

To reconcile the Petty Cash, the total amount of receipts should equal $45.78.

Jay's Car Sales reconciles and replenishes its Petty Cash fund at the end of each month. Therefore, when journalizing transactions in the accrual method, the end of the month date is used versus the date of each individual transaction. Also note that HST Paid on Purchases is tracked for claiming ITC's when filing HST with Revenue Canada.

Analyzing and entering of the transactions into Journals follows the same process as you learned in Chapters 4 and 5 of this Guide.

In example A1-3 below, you will note that the Petty Cash Register has been formatted in a similar manner to a Journal to make it that much easier for entering transactions when Journaling, however you can set it up in any format you choose if the information contained in the register is captured. The analysis and entry of the transactions is the same, regardless of what format is chosen for the register.

Example A1-3: Alternative Petty Cash Register Format - Petty Cash Register Jay's Car Sales

PETTY CASH REGISTER **For the Period: January 1 to 31, 2022**

2022		1013	5100	5200	5999	2040
Date	Description	Petty Cash (Credit)	Office Expense (Debit)	Office Supplies (Debit)	Miscellaenous Expense (Debit)	HST Paid on Purchases (Debit)
05-Jan	Postage Stamps	10.40	9.20			1.20
16-Jan	Coffee Supplies	21.80	19.29			2.51
18-Jan	Courier	13.56			12.00	1.56
22-Jan	Pens	5.98		5.29		0.69
		51.74	28.49	5.29	12.00	5.96

Reconciliation:

Amount of Float	$100.00
Less Cash in Float	48.26
Amount Needed to Replenish:	$51.74

To reconcile the Petty Cash in this example, the total amount of receipts should equal $51.74.

From the format of the register in Example A1-3, each transaction has been analyzed and logged into the register in the same way that it would have been had each of the purchases been made directly from the company's bank account. The only difference is that instead of using the Account called Bank Account, the Petty Cash Account, (*which would be in the COA for Jay's Car Sales*) is used.

At the end of each period, in this case the month, the columns are footed and cross-footed in the same manner as you have learned for journals (*see Example 5-18 for refresher if needed*)

Once the Petty Cash Register has been reconciled with the Vouchers/Receipts and passes the double-entry test, the General Journal would be used to record the corresponding transactions which are then posted into the respective GL Accounts as shown below:

GENERAL JOURNAL

PAGE 1

	2022 DATE		ACCOUNT	POST. REF.	DEBIT			CREDIT		
1	Jan	31	HST Paid on Purchases	2040		5	96			
2			Office Expenses	5100	2	8	49			
3			Office Supplies	5200		5	29			
4			Miscellaenous Expenses (Courier)	5999	1	2	00			
5			Petty Cash	1013				5	1	74
6			To record Petty Cash Disbursements for Month							

GENERAL LEDGER SHEET

Account: HST Paid on Purchases

Sheet No.	1
Account No.	2040

2022 DATE	Description	Journal Ref.	Transaction		Balance	
			Dr	Cr	Dr	Cr
Jan-31	For Petty Cash Disbursements	GJ1	5.96		5.96	

GENERAL LEDGER SHEET

Account: Office Expenses

Sheet No.	1
Account No.	5100

2022 DATE	Description	Journal Ref.	Transaction		Balance	
			Dr	Cr	Dr	Cr
Jan-31	Paid from Petty Cash	GJ1	28.49		28.49	

GENERAL LEDGER SHEET

Account: Office Supplies

Sheet No.	1
Account No.	5200

2022 DATE	Description	Journal Ref.	Transaction		Balance	
			Dr	Cr	Dr	Cr
Jan-31	Paid from Petty Cash	GJ1	5.29		5.29	

GENERAL LEDGER SHEET

Account: Miscellaneous Expenses

Sheet No.	1
Account No.	5999

2022 DATE	Description	Journal Ref.	Transaction		Balance	
			Dr	Cr	Dr	Cr
Jan-31	Paid from Petty Cash (Courier)	GJ1	12.00		12.00	

GENERAL LEDGER SHEET

Sheet No.	1
Account No.	1013

Account: Petty Cash

2022 DATE	Description	Journal Ref.	Transaction Dr	Transaction Cr	Balance Dr	Balance Cr
Jan-31	Month Disbursements	GJ1		51.74	51.75	

The Petty Cash Register with all the vouchers (receipts) attached is the Source Document for the above entries. The Petty Cash Registered would be stamped posted and then filed.

Next, cheque no. 25 (source document) would be issued to Cash to replenish the Petty Cash Fund $51.75. The cheque is taken to the bank cashed and the money placed back into the Petty Cash Float. The transaction would be entered into the Cash Disbursements Journal as follows:

CASH DISBURSEMENTS JOURNAL   **PAGE 1**

2022 DATE	Cheque #	Description	1010 Cash Account (Credit)	1013 Petty Cash (Credit)	2040 HST Paid on Purchases (Debit)	5100 Office Expenses (Debit)	5200 Office Supplies (Debit)	Miscellaneous Description	Miscellaneous (Debit)	Post Ref.
Jan 31	25	Cash	5 1 75					Petty Cash	5 1 75	1013

The General Ledger Account will be updated when the CDJ is posted for month-end as covered in Chapter 6 - Ledgers.

APPENDIX 2 – INVENTORY

Products **which are retained for the purpose of being sold to customers or materials and parts that are retained and used to make products to be sold to customers** are referred to as **Inventory.** There are essentially three basic categories of inventory.

1. *Raw Materials --* purchased by manufacturers to make products that have not yet entered production

2. *Work-In-Progress* – a product in various stages of development that has not yet been completed

3. *Finished Goods* – a fully complete product that is ready for sale / use

Manufacturers that **make products for sale** need to maintain all three categories of inventory. **Retailers** located in physical stores who **purchase products for resale** need to maintain Inventory of Finished Goods for display and sale through their stores. Depending on their business model and products, **Online Retailers** may maintain inventory of finished goods in warehouses that they ship to their customers (e.g., Amazon) or plan with manufacturing or distributing companies to ship directly to their Customers (e.g., Ali Express, Amazon). Then, there are businesses such as cleaning businesses that need to keep inventory of various cleaning products that are used in delivery of their services. From this explanation you can surmise that the number, types and purposes of inventories that may be maintained by a business depends on the activities of the business.

Inventory bookkeeping involves the **recording and management of financial transactions and records associated with the purchase and sale of inventory, depreciation, and other related "financial activities" resulting from returns, damage, disposal, etc**. This is different from management of physical inventories which is carried out through a separate inventory management system and is a topic that is beyond the scope of this booklet. It is possible for accounting software with inventory bookkeeping functionality to work in conjunction with compatible electronic inventory management systems, but it is important to recognize that while the activities are related, they are performed by separate systems. Inventory bookkeeping does not involve the level of information detail and activities required to effectively manage the physical movement of inventory within business supply chains. Inventory bookkeeping is limited to "financial" activities associated with the inventory including calculation of the cost of goods sold, which contributes to generation of information concerning profit and loss within financial statements.

As a part of Inventory accounting, Owners will need to choose a specific inventory accounting system, method of cost valuation, and follow the guidelines of the cost valuation method when calculating financial information from fluctuating expenses and revenue. Inventory accounting is accomplished by tracking inventory costs and recording inventory assets, and the overall value of inventory at the beginning and end of an accounting period. The quantities of products within

an inventory and the valuation of the inventory are important factors that influence how inventory transactions are recorded in the financial books.

> *Storing inventory can be very expensive and you will not want to maintain large quantities of items that become quickly obsolete. You are encouraged to research, plan, and develop/purchase an inventory management system which is efficient and cost effective for your business.*

Inventory Valuation

The value placed on Inventory at the end of the fiscal year is important in determining income. For income tax purposes, the two acceptable methods of valuing inventory are determined either by the fair market value of the entire inventory or, the value of individual items in your inventory at their cost or their fair market value, whichever is lower.[7] At the end of each year, any required financial adjustments are made to the **ASSET Inventory Account** to account for increases or decreases in the value of the inventory as a result of changes in fair market value.

During the year, the methods for valuing inventory depend on the type of inventory(ies) retained and business activities. Inventories are assets of the business. All businesses will periodically need to reconcile their actual inventory with their inventory records by conducting **physical counts of each item being held in inventory,** this is called an **Inventory Count**. Not only is an Inventory Count important for determining income, but it also serves to identify damaged products that require return for credit/refund, price adjustments due to obsolescence, or missing assets that require write-off.

If a Business has a small inventory and knows the <u>price paid</u> for each item on its shelves and warehouse, the Inventory Count and method of cost valuation can be as simple as a physical count of each type of item in Inventory at a specific date in time. Then multiply the price paid for each type of item by the quantity of that item to determine the total cost for the item. Repeat for each item type. Finally, add the total cost for each type of item to determine the total value of Inventory as of that date.

> **Inventory value is based on what the business pays for items in inventory, not the amount that it sells the items for.**

However, not all businesses will necessarily know how much was paid for each item sitting on its shelves or in its warehouse. This is a situation when accounting becomes less exact, working on the premise of estimates made with a fair degree of accuracy. In this situation, the Owner will need to determine the cost valuation method to be used for determining the business's inventory. The two commonly used methods for costing inventory accepted by the CRA include First In, First Out (FIFO) and Weighted Average:

---

[7] https://www.canada.ca/en/revenue-agency/services/tax/businesses/small-businesses-self-employed-income/business-income-tax-reporting/inventory-cost-goods-sold.html

First In, First Out (FIFO)   items which are purchased first are sold first. Stock is rotated with new stock being placed behind older stock on the shelves and in warehouses. The most recent price paid for each type of item is used to value the total cost of that item.

Weighted Average   the value of a type of item is calculated based upon the average price paid for the item during the accounting period. If the price for inventory items greatly fluctuates within an accounting period, this method may not be the best option as it can significantly skew calculations.

In order to be able to calculate income, businesses need to know:

Cost of Goods Sold (COGS)   the direct costs of producing the goods being sold

Example A2-1:

Bea's Sweet Foods has four accounting periods per calendar year. At the beginning of the first fiscal quarter (January 1, 2022), Bea's Sweet Foods had 20 jars of 500 ml honey in its inventory at a market value of $4.56 per jar. She bought 30 jars of honey on February 1st at a price of $4.87 and 30 jars of honey on March 1st at a price of $4.92. Between January 1 and March 31 (Q1), Bea sold 50 jars of honey. Bea always stocks her new inventory behind the current inventory so the oldest stock is sold first.

a. **FIFO Calculation**

Inventory at beginning of Q1:   20
Inventory purchased during period: + 60
                                        80 jars
  Less inventory sold during period   - 50
Inventory at end of Q1:   30 jars   Confirmed by Inventory Count on March 31st

Value of Honey **Inventory** at end of Q1: 30 jars x $4.92 = $147.60 (*purchase price of newest stock*)
Cost of Goods (Honey) **Sold** (COGS) in Q1: 50 x $4.87 = $246.00 (*purchase price of oldest stock*)

b. Weighted Average Calculation

Inventory at beginning of Q1:	20
Inventory purchased during period:	+ <u>60</u>
	80 jars
Less inventory sold during period	- <u>50</u>
Inventory at end of Q1:	30 jars Confirmed by Inventory Count on March 31st

Calculation of Value of Honey:
$$20 \times \$4.56 = \$\ 91.20$$
$$30 \times \$4.87 = \$145.20$$
$$30 \times \$4.92 = \underline{\$147.60}$$

Total paid for Honey Inventory in Q1: $\underline{\$384.00}$

Divide by total number of jars   80 = \$4.80 average price

Multiply by Inventory remaining   <u>x 30</u>

Weighted Average Value of Honey Inventory at end of Q1: $\$144.00$

Cost of Goods Sold   (COGS) in Q1: $50 \times \$4.80 = \$240.00$

Observe in calculation *a.* above that the value of the remaining Inventory as of March 31 using the FIFO method is \$147.60. However, in calculation *b.* the value of the same Inventory for the same accounting period using the Weighted Average method is slightly less at \$144.00, due to the fluctuating prices paid for the honey. Regardless of the method used to value the inventory, observe that only once the Inventory costing was complete and the price per unit calculated could the **Cost of Goods Sold (COGS)** be calculated for the honey sold and the value of the remaining inventory be calculated and verified through the Inventory Count.

TASK: Undertake further research as necessary and decide:

My business will use the _____ Method for Inventory Costing.

Inventory Assessment

The process for recording inventory purchases in the financial books depends on the method that a business uses to determine the quantity of each type of item in its inventory. Two common inventory accounting methods include:

Perpetual Inventory   where a business is continually tracking inventory increases due to purchases, inventory reductions due to sales, etc. and the current balance of each type of item in the inventory. Accounting software with inventory functionality typically uses this method for keeping a Book Inventory. The Inventory Count is performed at minimum once per year.

Periodic Inventory

an Inventory Count is performed at the <u>end of each accounting period</u> (e.g., monthly, quarterly, semi-annually, annually). This information obtained is used to balance with the General Ledger. The Assessment produces the balance of inventory at the end of an accounting period which is also used for the beginning count of the next accounting period.

As Owner, you will need to determine the accounting method to be used for your inventory. For example, a corner grocery store that prepares quarterly financial statements may choose to perform a Periodic Inventory Count at the end of each fiscal quarter. Whereas physical inventory counting may be too onerous for a high-volume online retail business which would likely maintain a Perpetual (Book) Inventory and may only choose to perform a physical count of inventory once per year.

Inventory Related Accounts

Businesses with inventories require various accounts within their Chart of Accounts that are related to managing inventories. The accounts needed are specific to the financial activities involving inventory and the various types of transactions expected. Inventory related accounts include but are not necessarily limited to:

- ASSET Inventory Account
- ASSET Inventory Depreciation Account
- REVENUE Sales Account (i.e., to record Sale of Products)
- REVENUE Freight (i.e., if charging Customers for Freight)
- EXPENSE Inventory Adjustment/Write-Off
- EXPENSE Cost of Goods Sold Account
- EXPENSE Inventory Purchases
- EXPENSE Purchase Discounts (i.e., to record discounts for early payment on business purchases)
- EXPENSE Purchase Returns (i.e., to record return of products purchased by business)
- EXPENSE Freight (i.e., for paying Freight charged to business)

For the purpose of instruction using examples, the following COA account numbers have been assigned and shown in brackets below:

- ASSET Inventory Account (1050)
- REVENUE Sales (4005)
- EXPENSE Inventory Adjustment/Write-Off (5021)
- EXPENSE Cost of Goods Sold Account   (5038)
- EXPENSE Inventory Purchases (5315)

Perpetual Inventory Bookkeeping

As discussed above, perpetual inventory bookkeeping means that the value of the inventory is constantly being adjusted through the recording of transactions that increase or decrease the value of the inventory.

Recording Purchases on Credit

Every time an item for inventory is purchased <u>on account</u>, it should be recorded as an **ASSET** increasing the balance (i.e., Debit) of the **Inventory Account** and as a **LIABILITY** increasing the balance (i.e., Credit) of the **Accounts Payable Account**.

<center>**The amount recorded in the Inventory Account should <u>never</u> include taxes**.</center>

Example A2-2: Inventory Purchased on Credit

On February 1st Bea's Sweet Foods received invoice No. 123 from Wholesale Foods. This invoice was for 30 jars of 500 ml Bee Honey purchased on account at a price of $4.87 per unit plus HST.

TASK 1: On a separate piece of paper, analyze the above transaction using the TAM (p.11) and Table 1 (p.10) and compare to the analysis provided below:

Analysis

Step 1: the value given (money on credit) and the value received (jars of honey)

Step 2: cost of the honey is $146.10 + $18.99 HST paid for a total of $165.09

Step 3: three Accounts involved: 1050 Inventory Account (ASSET), 2010 Accounts Payable and 2040 HST Paid on Purchases (LIABILITIES)

Step 4: the transaction will increase the balance of the Accounts Payable Account $165.09, increase the balance of the Inventory Account $146.00, and increase the balance of the HST Paid on Purchases Account $18.99

Step 5: to increase the balance of 2010 Accounts Payable Credit it $165.09, to increase the balance of 1050 Inventory Debit it $146.10 and, to increase the balance of 2040 HST Paid on Purchases Debit it $18.99:

2010 Accounts Payable		2040 HST Paid on Purchases		1050 Inventory Account	
Debit	Credit	Debit	Credit	Debit	Credit
	$165.09	$18.99		$146.10	

Step 6:   Date of Transaction: February 1, 2022

Explanation: Honey Purchased on Credit from Wholesale Foods, Invoice No.123

Step 7: Debits = Credits, passes double-entry test

Recall from Chapter 5 - Journals, that transactions involving purchases on credit are recorded into the Purchases Journal and need to be entered into the Accounts Payable Ledger daily. Following the instructions provided in Chapters 5 - Journals and 6 -Ledgers, the transaction would be entered into the **Purchases Journal** as follows:

- Credit **LIABILITY** Accounts Payable $165.09

- Debit the **ASSET** Inventory Account $146.10

- Debit **LIABILITY** HST Paid on Purchases $18.99

PURCHASES JOURNAL   Page 1

2022			2010	2040	Acct #	Acct #			
			Accounts	HST Paid on	Expense Acct.	Expense Acct.			
		Invoice	Payable	Purchases	Name	Name	Miscellaneous	Miscellaneous	
DATE	Supplier/Vendor	#	(Credit)	(Debit)	(Debit)	(Debit)	Description	(Debit)	Post Ref.
Feb 1	Wholesale Foods	123	1 6 5 09	1 8 99			Inventory Account	1 4 6 10	

Then, as per the instruction on daily posting from Purchases Journal to Subledgers record the transaction in the Accounts Payable Subledger Sheet for the supplier as follows:

SUBLEDGER SHEET - Accounts Payable

Account No:	V0100WHO		Sheet No:	1
Name:	Wholesale Foods		Terms:	Net 30
Address:	123 Causeway, Anywhere, ON		Credit Limit:	5,000

2022 Date	Description	Journal Ref.	Transaction		Balance	
			Debit	Credit	Debit	Credit
01-Feb	Invoice 123	PJ-1		165.09		165.09

The remainder of posting of transactions from the Purchases Journal to the General Ledger accounts will occur at month-end as instructed in Chapter 6 - Ledgers.

Recording Purchases paid by Cash

Recall the Cash Disbursements Journal (CDJ) is used to record cash spent by the business. Therefore, every time an item is purchased for the inventory <u>using cash or cash equivalents (e.g., cheque, electronic transfer from bank account, etc.)</u> the transaction is entered in the CDJ. The transaction is recorded as follows:

- Debit (increase) the **ASSET Inventory Account** for the purchase exclusive of HST
- Debit (increase) the **LIABILITIES HST Paid on Purchases Account** for HST paid on the purchase
- Credit (decrease) the **ASSET Bank Account** by the total amount inclusive of HST

Recording Purchases paid by Other Methods

The General Journal (GJ) can be used to record transaction using atypical types of payments. For example,

- When inventory is purchased with a Credit Card, the **ASSET Inventory Account** should be Debited for purchase less HST, the **LIABILITIES HST Paid on Purchases** Contra Account should be Debited for the amount of HST paid, and the **LIABILITIES Credit Card Payable Account** should be Credited for the entire amount of the purchase including HST.

- When inventory is purchased using a Bank Line of Credit, the **ASSET Inventory Account** should be Debited for purchase less HST, the **LIABILITIES HST Paid on Purchases** Contra Account should be Debited for the amount of HST paid, and the **LIABILITIES Bank Line of Credit Account** should be Credited for the entire amount of the purchase including HST.

The Owner's Equity Journal (OEJ) (or the General Journal (GJ) if an Owner's Equity Journal is not kept separately) can be used to record direct purchases of inventory by the Owner. For example,

- When inventory for the business is purchased **directly** by an Owner or Partner through personal money, the **ASSET Inventory Account** should be Debited for the amount of purchase less HST, the **LIABILITIES HST Paid on Purchases** Contra Account should be Debited for the amount of HST paid, and the **EQUITY Owner's Contribution Account** (for sole owner) or the **Partner's Contribution Account** as applicable should be Credited for the entire amount of the purchase including HST.

However, if the Owner or Partner is loaning funds to the business to pay for inventory that will be paid out of the business's bank account it would be recorded as two transactions:
    i.   A loan from the Owner/Partner to the Business

- Value received **ASSET Bank Account.** Increase (Debit) this Account by the amount of the loan received.
- Value given **EQUITY Owner's/Partner's** (as appropriate) **Contribution**. Increase (Credit) this Account by the amount of the loan received.

ii. Record the entire inventory purchase transaction by Debiting the **ASSET Inventory Account** for inventory purchase price exclusive of HST paid, Debiting the **LIABILITIES HST Paid on Purchases** Contra Account by the amount of HST paid, and Crediting the **ASSET Bank Account** for the entire purchase inclusive of HST paid.

REMEMBER: (1) The amount recorded in the ASSET Inventory Account should <u>never</u> include HST. Taxes on purchases should always be recorded in the **LIABILITIES HST Paid on Purchases Account**. (2) *When recording transaction in the GJ or OEJ the transactions must be posted daily to appropriate ledger sheets* (e.g., Asset Inventory, HST Paid on Purchases, Credit Card, Bank Line of Credit, Owner's/Partner's Ledger/Subledger Sheet).

Recording a Sale

When inventory items are sold, they are recorded in the appropriate journal in accordance with the instructions provided in Chapter 5 - Journals. However, with Periodic Inventory bookkeeping there are no adjustment transactions made to the EXPENSE Cost of Goods Sold or Purchase Expense Account at the time of sale.

Example A2-3: Inventory Sold on Credit

Recall that whenever an item is sold <u>on credit</u> it is recorded in the Sales Journal.

On February 15, 2022, Bea's Sweet Foods invoiced (#899) 15 jars of Honey on account to Hunney's Chicken & Ribs for $6.99 each plus HST.

TASK: Analyze the transaction using the TAM and Table 1 on a separate piece of paper and compare your results with Bea's below:

Step 6:   Information about the transaction for entering in the **Sales Journal**

Date of Transaction: February 15, 2022
Explanation: Honey Sold on Credit Hunney's Chicken & Ribs, Invoice #899

2030 Accounts Receivables		2020 HST Charged on Sales		4005 Sales Account	
Debit	Credit	Debit	Credit	Debit	Credit
$118.48			$13.63		$104.85

Step 7: Debits = Credits, passes double-entry test

When recording the transaction into the financial books, ensure to do so in the following order:

A.   Each time a sale is made on account the sale must be recorded daily into in the Sales Journal. Following instructions in Chapter 5 - Journals, this transaction would be recorded as follows:

SALES JOURNAL   **PAGE   1**

2022				1030	4020	2020	
				Accounts Receivable (AR)	Revenue - Sales	HST Charged on Sales	
DATE	Customer	Invoice #	Terms	(Debit)	(Credit)	(Credit)	Post Ref.
Feb 15	Hunney's Chicken & Ribs	899	N30	1 1 8 48	1 0 4 85	1 3 63	

And then posted into the Accounts Receivable Subledger for Hunney's Chicken & Ribs

SUBLEDGER SHEET - Accounts Receivable

Account No: C0600HUN		Sheet No:	1
Name: Hunney's Chicken & Ribs		Terms:	Net 30
Address: 123 Eatery Lane, Anywhere, ON		Credit Limit:	500

2022 Date	Description	Journal Ref.	Transaction		Balance	
			Debit	Credit	Debit	Credit
15-Feb	Invoice 899	SJ1	118.48		118.48	

B.   <u>Immediately after</u> recording the transaction in the Sales Journal and posting to the Customer's Accounts Receivables Subledger, Bea needs to account for the change in her inventory. Using the GJ she will transfer the cost of what she paid for the honey from the Asset Account for Inventory (decrease the balance by Crediting the ASSET account per Table 1) to the Cost of Goods Sold Account 5038 (increase the balance by Debiting the EXPENSE account per Table 1) as shown below:

Recall that Bea paid $4.87 per unit. 15 jars sold x $4.87 = $73.05

GENERAL JOURNAL   PAGE 1

	2022 DATE		ACCOUNT	POST. REF.	DEBIT	CREDIT
1	Feb	15	Cost of Goods Sold	5038	7 3 05	
2			Inventory Account	1050		7 3 05
3			To record inventory reduction re sale, Inv 899			
4						

GENERAL LEDGER SHEET

Account: Cost Of Goods Sold

Sheet No.	1
Account No.	5038

2022 DATE	Description	Journal Ref.	Transaction Dr	Cr	Balance Dr	Cr
Feb-15	Hunney's Chicken & Ribs, Inv. 899	GJ1	73.05		73.05	

GENERAL LEDGER SHEET

Account: Inventory

Sheet No.	1
Account No.	1050

2022 DATE	Description	Journal Ref.	Transaction Dr	Cr	Balance Dr	Cr
Feb-01	Wholesale Foods Inv. 123	PJ1	146.10		146.10	
Feb-15	Hunney's Chicken & Ribs, Inv. 899	GJ1		73.05	72.95	

Using colour and direction of arrows, observe how the $73.05 cost for the 15 items from inventory is transferred out of the Asset Inventory Account, (reducing the balance of the account to $72.95), and transferred into the Cost of Goods sold expense account. Only once all the components of the transaction are recorded is cross-referencing completed between the General Journal and General Ledger Sheets.

> *Remember, transactions recorded in the General Journal need to be posted daily into the General Ledger and any applicable Subledger Sheets.*

Inventory Sold through Cash Sales

Items sold for cash are typically recorded through a cash register, which may or may not be connected to inventory management software that may or may not be integrated into the accounting software. Integrated technology can be very effective for management of inventory and inventory bookkeeping, but it can also be very expensive and cost prohibitive for small business owners.

Cash sales (e.g., from a cash register tape) are entered daily into the **Cash Receipts Journal (CRJ)**. With the Perpetual Inventory Method, inventory items being sold are tracked at the time of the sale. Therefore, when integrated inventory management and accounting software are not used, changes in inventory need to be manually tracked and the inventory bookkeeping needs to be manually completed at the end of the business day. This is accomplished through a GJ adjustment transferring the value of the total cost (i.e., the price the business paid for the items) of the entire inventory items that were sold from the ASSET Inventory Account to the EXPENSE Cost of Goods sold account.

Example A2-4: Inventory Sold through Cash Sales

Bea maintains an inventory list (Source Document) with current market unit costs (*obtained from her purchasing records*) that are used to manually track inventory items sold each day. Staff track items sold by marking a tick (|) for each item sold. At the end of the day the ticks are counted and the cost of inventory is calculated for entering into the **Cash Receipts Journal**.

Date: Feb 15, 2022   Daily Sales – Inventory

Item Description	Items Sold	Quantity Sold (#)	@	Unit Cost ($)	Total Per Item Type ($)
Bee Honey 250 ml		0	@	3.57	0.00
Bee Honey 500 ml	||||| ||||| |||||	15	@	4.87	73.05
250 ml Molasses	||	2	@	2.99	5.98
Sweet Bread	||||| ||||| ||||| ||||	19	@	3.89	73.91
Strawberry Pie	||||| ||||| ||||| ||||| ||||| ||||| ||||| ||||| ||||| |||||	50	@	4	200.00
Rhubarb Pie	||||| |||||	10	@	4	40.00
Blueberry Pie	||||| ||||| ||||| ||||| ||||| ||||| ||||| ||||| ||||| |||	48	@	4.5	2.16
Butter Tarts	||||| ||||| ||||| ||||| ||||| |||||	30	@	4	120.00
Shortbread		0	@	3.75	0.00
Chocolate Chip Cookies	||||| ||||| ||||| |||	18	@	3.99	71.82
Carmel Apples		0	@	3.49	0.00
1 kg Salt Water Taffy			1	@	7.69	7.69
500 gm Salt Water Taffy	|||	3	@	4	12.00
	Total Inventory				606.61

After reconciling the day's sales from the cash register tape with money in the cash register less the float, Bea makes the daily deposit into the business's Bank Account. She thereafter records the day's sales into the **Cash Receipts Journal** as follows:

- DEBIT (increase) the ASSET Bank Account by the total amount of money received through the daily sales inclusive of HST

- CREDIT (increase) the LIABILITIES HST Charged on Sales Account by the total amount of HST Charged on all Sales

- CREDIT the REVENUE – Sales Account by the total amount of Sales (excluding HST)

According to the Cash Register tape (Source Document) and reconciled cash in register, on February 15, 2022 Bea's Sweet Foods had daily sales of $818.92 plus $106.46 for HST Charged on Sales for a total of $925.38. Bea recorded this information into the Cash Receipts Journal as follows:

CASH RECEIPTS JOURNAL   **PAGE   1**

2022 DATE	Description	Invoice #	1011 Cash Account (Debit)	2020 HST Charged on Sales (Credit)	1030 Accounts Receivable (Credit)	4005 Revenue - Sales (Credit)	# Revenue - Account (Credit)	Miscellaneous Description	Miscellaneous (Credit)	Post Ref.
Feb 15	Daily Sales		9 2 5 38	1 0 6 46		8 1 8 92				

Next, Bea records the transfer of value from the **ASSET Inventory Account** to the **EXPENSE Cost of Goods Sold** Account using the General Journal as follows:

GENERAL JOURNAL   PAGE **6**

	2022 DATE		ACCOUNT	POST. REF.	DEBIT	CREDIT
1	Feb	15	Cost of Goods Sold	5038	6 0 6 61	
2			Inventory Account	1050		6 0 6 61
3			To record inventory reduction re daily sales			

Recall that General Journal transactions are recorded to the General Ledger daily. Bea then posts the transaction to the General Ledger Sheets as follows:

GENERAL LEDGER SHEET   Sheet No.   2
Account: Cost Of Goods Sold   Account No.   5038

2022 DATE	Description	Journal Ref.	Transaction		Balance	
			Dr	Cr	Dr	Cr
Feb-15	Balance Forward				13,750.00	
Feb-15	Inventory sold in Daily Sales	GJ6	606.61		14,356.61	

GENERAL LEDGER SHEET   Sheet No.   2
Account: Inventory   Account No.   1050

2022 DATE	Description	Journal Ref.	Transaction		Balance	
			Dr	Cr	Dr	Cr
Feb-15	Balance Forward				3,285.40	
Feb-15	Inventory Reduction via Daily Sales	GJ6		606.61	2,678.79	

Observe through the use of colour and arrow direction how the value of the inventory sold is transferred to the **EXPENSE Cost of Goods Account** from the **ASSET Inventory Account.** Only once the transaction has been fully posted from the General Journal to the General Ledger Sheets is the appropriate cross-referencing entered as shown by the orange-coloured arrows.

Periodic Inventory Bookkeeping

If a business does not track changes to inventory on a continuous basis, then the Period Inventory Method is used. Bookkeeping following Periodic Inventory management requires the introduction and use of a **Purchases Expense Account** which is located with the EXPENSES in the COA**.**

Recording Purchases

Unlike with Perpetual Inventory, in Periodic Inventory the cost of the item purchased is not recorded in a COGS account at the time of sale. Rather, all purchases of items for inventory made by the business will be recorded into an **EXPENSE Purchases Expense Account**.

To illustrate, the same scenarios from Bea's Sweet Foods will be repeated except applying the Periodic Inventory method and related bookkeeping.

Example A2-6 Inventory Purchased on Credit

On February 1st Bea's Sweet Foods received invoice No. 123 from Wholesale Foods. This invoice was for 30 jars of 500 ml Bee Honey purchased on account at a price of $4.87 per unit plus HST.

With the Periodic Inventory method, every time an item is purchased for the inventory <u>on account</u>, it should be recorded as an **EXPENSE** increasing the balance (i.e., Debit) of the **Purchases Expense** Account, as **LIABILITIES** increasing the balance (i.e., Debit) of the HST Paid on Purchases Account and Credit increasing the balance of the **Accounts Payable Account**. The amount recorded in the Purchases Expense Account should <u>not</u> include HST.

TASK 2: On a separate piece of paper, analyze the above transaction using the TAM (p. 11) and Table 1 (p.10) and compare with the analysis below:

Analysis

Step 1: value given: money on credit and value received: jars of honey

Step 2: cost of the honey is $146.10 + $18.99 HST paid for a total of $165.09

Step 3: three Accounts involved: LIABILITIES accounts: 2010 Accounts Payable and 2040 HST Paid on Purchases account and, EXPENSE account: 5315 Purchases Expense Account.

Step 4: the transaction will increase the balance of the Accounts Payable Account (value given), increase the balance of the Purchases Expense account (value received) and increase the balance of the HST Paid on Purchases Account for the amount of HST paid

Step 5: to increase the balance of 2010 Accounts Payable (LIABILITIES) Credit it $165.09, to increase the balance of 5315 Purchases Expense (EXPENSE) account Debit it $146.10 and, to increase 2040 HST Paid on Purchases Contra Account (LIABILIIES) Debit it $18.99

Step 6: Date of Transaction: February 1, 2022

Explanation: Honey Purchased on Credit Wholesale Foods, Invoice 123

2010 Accounts Payable		2040 HST Paid on Purchases		5315 Purchases Expense	
Debit	Credit	Debit	Credit	Debit	Credit
	$165.09	$18.99		$146.10	

Step 7: Debits = Credits, passes double-entry test

Following the instructions provided in Chapters 5 - Journals and 6 -Ledgers, the transaction would be entered into the **Purchases Journal** as follows:

- Credit **LIABILITY** Accounts Payable $165.09
- Debit the **EXPENSE** Purchases Expense Account $146.10
- Debit **LIABILITY** HST Paid on Purchases $18.99

PURCHASES JOURNAL   Page _1_

2022 DATE	Supplier/Vendor	Invoice #	2010 Accounts Payable (Credit)	2040 HST Paid on Purchases (Debit)	5315 Purchases Expense (Debit)	Acct # Expense Acct. Name (Debit)	Miscellaneous Description	Miscellaneous (Debit)	Post Ref.
Feb 1	Wholesale Foods	123	1 6 5 09	1 8 99	1 4 6 10				

The transaction is then posted to the Accounts Payable Sub-Ledgers Accounts as follows:

Subledger Accounts Payable Sheet for Wholesale Foods $165.09

SUBLEDGER SHEET - Accounts Payable

Account No: V0100WHO	Sheet No:	1
Name: Wholesale Foods	Terms:	Net 30
Address: 123 Causeway, Anywhere, ON	Credit Limit:	5,000

2022 Date	Description	Journal Ref.	Transaction Debit	Transaction Credit	Balance Debit	Balance Credit
01-Feb	Invoice 123	PJ-1		165.09		165.09

Recall from Chapter 5 - Journals that the columns in the Purchases Journal will be footed at the end of the month and entered into the appropriate General Ledger sheets at that time. Therefore, once the inventory purchase transaction is entered into the Purchases Journal and the Accounts Payable Subledger Sheet for Wholesale Foods, no further entries are required at this time. At the end of the month all the Accounts Payable amounts will be added and posted into the Accounts Payable General Ledger Sheet, all the HST Paid on Purchases will be added and entered into the General Ledger Sheet for HST Paid on Purchases, and all the amounts entered under Purchases Expense will be added and entered into the General Ledger Sheet for Purchases Expense.

Recording Purchases paid by Cash

Recall that the Cash Disbursements Journal (CDJ) is used to record cash spent by the business. Therefore, every time an item is purchased for the inventory using cash or cash equivalents (e.g., cheque, electronic transfer from bank account, etc.) the transaction is entered in the CDJ. The value received side of the transaction should be recorded as Debit (increase) to the **EXPENSES Purchase Expense Account** by the purchase amount exclusive of HST, a Debit (increase) is made to the **LIABILITIES HST Paid on Purchases** Contra Account for the total amount of taxes paid on the purchase, and the value given side is recorded as a Credit (decrease) to the **ASSET Bank Account**.

Recording Purchases paid by Other Methods

The General Journal (GJ) can be used to record transaction using atypical types of payments. For example,

- When inventory is purchased with a Credit Card, the **EXPENSES Purchase Expense Account** should be Debited for the amount of purchase less HST, the **LIABILITIES HST Paid on Purchases Contra Account** should be Debited for the amount of HST paid, and the **LIABILITIES Credit Card Payable Account** should be Credited for the entire amount of the purchase including HST.

- When inventory is purchased using a Bank Line of Credit, the **EXPENSES Purchase Expense Account** should be Debited for the amount of purchase less HST, the **LIABILITIES HST Paid on Purchases** Contra Account should be Debited for the amount of HST paid, and the **LIABILITIES Bank Line of Credit Account** should be Credited for the entire amount of the purchase including HST.

The Owner's Equity Journal (OEJ) (or the General Journal (if an Owner's Equity Journal is not kept) can be used to record direct purchases of inventory by the Owner:

- When inventory for the business is purchased **directly** by an Owner or Partner through personal money, the **EXPENSES Purchase Expense Account** should be Debited for the amount of purchase less HST, the **LIABILITIES HST Paid on Purchases** Contra Account should be Debited for the amount of HST paid, and the **EQUITY Owner's Contribution Account** (for sole owner) or the **Partner's Contribution Account** as applicable should be Credited for the entire amount of the purchase including HST.

However, if the Owner or Partner is loaning funds to the business to pay for inventory that will be paid out of the business's bank account it would be recorded as two transactions:

i. A loan from the Owner/Partner to the Business

- Value received **ASSET Bank Account.** Increase (Debit) this Account by the amount of the loan received.

- Value given **EQUITY Owner's/Partner's** (as appropriate) **Contribution**. Increase (Credit) this Account by the amount of the loan received.

ii. Record the entire inventory purchase transaction Debit the **EXPENSES Purchase Expense Account** for inventory purchase price less HST paid, the **LIABILITIES HST Paid on Purchases** Contra Account by the amount of HST paid, and Credit the **ASSET Bank Account** for the entire purchase inclusive of HST paid.

REMEMBER: (1) The amount recorded in the Purchases Expense Account should <u>never</u> include HST. The tax portion of the purchase should always be recorded in the **LIABILITIES**

HST Paid on Purchases Account. (2) When recording transaction is the GJ or OEJ the transactions must be posted daily to appropriate ledger sheets (e.g., Asset Inventory, HST Paid on Purchases, Credit Card, Bank Line of Credit, Owner's/Partner's Ledger/Subledger Sheet).

Recording Sales

When items are removed from Inventory using a Periodic Inventory Method, the Cost of Goods Sold is **not** recorded at the time of the sale as it is done under the Perpetual Inventory Method. You are likely wondering why not? The reason is that when using the Periodic method you are not continuously tracking the movement of items in and out of neither the ASSET Inventory Account nor the **EXPENSES Purchases Expense Account**. Changes in value of the Inventory are reconciled at the end of the financial period.

Recall each time a sale is made on account the sales must be recorded in the Sales Journal. You will note that the analysis and entering of transaction information into the Sales Journal for the following scenario is the same as it was under the Perpetual Inventory.

Example A2-7: Inventory Sold on Credit

On February 15, 2022 Bea's Sweet Foods invoiced (#899) 15 jars of Honey on account to Hunney's Chicken & Ribs for $6.99 each plus HST.

<div align="center">SALES JOURNAL   PAGE _1_</div>

2022				1030 Accounts Receivable (AR) (Debit)	4020 Revenue - Sales (Credit)	2020 HST Charged on Sales (Credit)	
DATE	Customer	Invoice #	Terms	(Debit)	(Credit)	(Credit)	Post Ref.
Feb 15	Hunney's Chicken & Ribs	899	N30	1 1 8 48	1 0 4 85	1 3 63	

Thereafter the transaction is posted to the Accounts Receivable Subledger Sheet for the customer as shown below:

SUBLEDGER SHEET - Accounts Receivable

Account No: C0600HUN		Sheet No:	1
Name:	Hunney's Chicken & Ribs	Terms:	Net 30
Address:	123 Eatery Lane, Anywhere, ON	Credit Limit:	500

2022 Date	Description	Journal Ref.	Transaction Debit	Credit	Balance Debit	Credit
15-Feb	Invoice 899	SJ1	118.48		118.48	

No further transactions are recorded at this time.

Inventory Sold through Cash Sales

Cash sales (e.g., from a cash register tape) are entered daily into the **Cash Receipts Journal (CRJ)**. With the Periodic Inventory Method inventory items sold are not tracked at the time of the sale.

Example A2-8: Inventory Sold through Cash Sales

According to the Cash Register tape (Source Document) and reconciled cash in register, on February 15, 2022 Bea's Sweet Foods had daily sales of $818.92 plus $106.46 for HST Charged on Sales for a total of $925.38. Bea recorded this information into the CRJ as follows:

<div align="center">

CASH RECEIPTS JOURNAL   **PAGE 1**

</div>

2022 DATE	Description	Invoice #	1011 Cash Account (Debit)	2020 HST Charged on Sales (Credit)	1030 Accounts Receivable (Credit)	4005 Revenue - Sales (Credit)	# Revenue - Account (Credit)	Miscellaneous Description	Miscellaneous (Credit)	Post Ref.
Feb 15	Daily Sales		9 2 5 38	1 0 6 46		8 1 8 92				

No further transactions are recorded at this time because inventory items sold are not being tracked.

Accounting for Changes in Inventory

As mentioned earlier, Periodic Inventory requires that inventory counts will need to be taken at the end of each accounting period. An accounting period is whenever you decide to prepare your financial statements whether it is monthly, quarterly, semi-annually, or annually. The more frequent financial statements are prepared, the more accurate the Owner's understanding of actual finances. However, the decision about the frequency of preparation of financial statements (e.g., the accounting periods used) needs to be made with consideration of disruptions in operations, time consumed to perform inventory counts and any additional expenses experienced. The purpose of taking periodic inventory is to determine the quantities and cost of inventory items that have been sold and also to reconcile the quantities and value of inventory items that remain in stock.

Profits cannot be determined until the Cost of Goods Sold (COGS) has been calculated once inventory has been taken. In Periodic Inventory Bookkeeping the Cost of Goods Sold (COGS) is calculated using the following formula:

COGS = Inventory Start of Period + Net Purchases – Inventory at the End of the Period

Net purchases are equal to the amount of money the business paid for all stock items (exclusive of HST) purchased during the accounting period less any returns.

Taking Inventory

Inventory Counts needs to be planned in advance for timing, efficiency and accuracy. Ideally it should be completed when physical counts are less prone to interruptions and errors. *Research the internet for tips for planning and executing inventory counts.* Once the physical count of each item in inventory is complete, you will need to refer to your purchasing records to determine the price paid for each of the items. How the value of the inventory is to be calculated depends on the inventory accounting method you are using: FIFO or Weighted Average (see p.101).

Example A2-9 Calculating Present Inventory Value

Bea now uses the Periodic Inventory method and prepares her financial statements quarterly. The last time inventory was taken was at year-end on December 31, 2021. This inventory count also serves as Inventory for the start of the first quarter (January 1 to March 31). The total value of inventory recorded as of January 1, 2022 in the ASSET Inventory Account was $7,898.62.

Bea now needs to perform an inventory count for the end of the first quarter.

First, Bea performs a count of the inventory on hand at her booth in the Farmer's Market. Bea employs FIFO for managing and accounting for her inventory. The following Table shows a list of the products on-hand at her Booth and the last unit price that she <u>paid</u> for each of the inventory items purchased. She obtained this information from her purchasing records.

Inventory Item	Quantity		Price Per Unit $	Item Total
250 ml Bee Honey	8	@	3.57	28.56
500 ml Bee Honey	5	@	4.87	24.35
250 ml Molasses	3	@	2.99	8.97
Sweet Bread	6	@	3.89	23.34
Strawberry Pie	3	@	4.00	12.00
Rhubarb Pie	3	@	4.00	12.00
Blueberry Pie	2	@	4.50	9.00
Packaged Butter Tarts	4	@	4.00	16.00
Packaged Shortbread	2	@	3.75	7.50
Packaged Chocolate Chip Cookies	6	@	3.99	23.94
Packaged Carmel Apples	6	@	3.49	20.94
1kg Salt Water Taffy	2	@	7.69	15.38
500 gm Salt Water Taffy	4	@	4.00	16.00
Booth Inventory Value as at March 31, 2022:				**$217.98**

On the same day, Bea repeats the same process counting the inventory and calculating the value of the inventory at her store which has a much larger selection of items. The value of the inventory in the store is $3,892.56. Then, she will add the two inventories together to come up with the total value of all Inventory of $4,110.54 as at March 31, 2022.

Bea looks up the balance on the General Ledger Sheet for Purchase Expenses occurring between January 1 and March 31, 2022 and determines the Net Purchase amount of $20,689.21.

Bea can now calculate the Cost of Goods Sold (COGS) during the period January 1 to March 31, 2022 as follows:

Inventory Start of Period + Net Purchases – Inventory at the End of the Period = COGS

$$(\$7,898.62 + \$20,689.21) \quad - \$4,110.54$$

$$\$28,587.83 \qquad - \$4,110.54 \quad = \$24,477.29 \text{ COGS}$$

With this knowledge in hand, Bea uses the General Journal to make the following bookkeeping adjustments to bring the ASSET Inventory Account and EXPENSE COGS Account current as of March 31, 2022

1. She transfers the total value of inventory purchased between January 1 and March 31, 2022 from the EXPENSES Purchases Expense Account into the ASSETS Inventory Account.

<div align="center">

GENERAL JOURNAL   **PAGE 9**

</div>

2022 DATE		ACCOUNT	POST. REF.	DEBIT	CREDIT
1	Mar 31	Inventory Account	1050	20 6 8 9 21	
2		Purchases Expense Account	5315		20 6 8 9 21
3		To record transfer 1st quarter inventory purchases			

GENERAL LEDGER SHEET

Account: Inventory

Sheet No.	1
Account No.	1050

2022 DATE	Description	Journal Ref.	Transaction Dr	Transaction Cr	Balance Dr	Balance Cr
Jan-01	Balance Forward				7,898.62	
Mar-31	1st Quarter Purchases	GJ9	20,689.21		28,587.83	

GENERAL LEDGER SHEET

Account: Purchases Expense

Sheet No.	5
Account No.	5315

2022 DATE	Description	Journal Ref.	Transaction Dr	Transaction Cr	Balance Dr	Balance Cr
Mar-30	Balance Forward				20,689.21	
Mar-31	Transfer out Q1 purchases	GJ9		20,689.21	0.00	

Observe through the use of coloured arrows and direction how the total amount of purchases occurring between January 1 to March 31, 2022 in the amount of $20,689.21 is transferred into the ASSET Inventory Account increasing the account balance to $28,587.83. It is also transferred out of the EXPENSES Purchases Expense Account decreasing the account balance to $0. Once the transaction is fully posted to the General Ledger Sheets the cross-referencing illustrated through the use of orange-coloured arrows is completed.

2.   Bea increases the EXPENSE COG Account to reflect the calculated COGS and reduces the ASSET Inventory Account by the same amount as illustrated below:

GENERAL JOURNAL   PAGE 9

2022 DATE		ACCOUNT	POST. REF.	DEBIT	CREDIT
1	Mar 31	Inventory Account	1050	20 6 8 9 21	
2		Purchases Expense Account	5315		20 6 8 9 21
3		To record transfer 1st quarter inventory purchases			
4					
5	Mar 31	Cost of Goods Sold	5038	24 4 7 7 29	
6		Inventory Account	1050		24 4 7 7 29
7		To record Goods Sold in Q1			

GENERAL LEDGER SHEET

Account: Cost of Goods Sold

Sheet No.	1
Account No.	5038

2022 DATE	Description	Journal Ref.	Transaction Dr	Cr	Balance Dr	Cr
Mar-31	First Quarter COGS	GJ9	24,477.29		24,477.29	

GENERAL LEDGER SHEET

Account: Inventory

Sheet No.	1
Account No.	1050

2022 DATE	Description	Journal Ref.	Transaction Dr	Cr	Balance Dr	Cr
Jan-01	Balance Forward				7,898.62	
Mar-31	1st Quarter Purchases	GJ9	20,689.21		28,587.83	
Mar-31	1st Quarter Good Sold	GJ9		24,477.29	4,110.54	

Observe through the use of colour and arrow direction, how the total amount of COGS for Q1 has been posted to the General Ledger Sheet for the COGs Account. The Inventory balance is brought to the current value of $4,110.54 (as confirmed through the Inventory Count) by deducting the total COGS for the first quarter from the Inventory Account.   Once the transaction has been fully posted to the General Ledger sheets the cross-referencing between the GJ Post Ref. Column and General Ledger Sheets Journal Ref. Columns are completed.

REMEMBER, transactions should always be journaled first. Never skip journaling or post transactions directly to General Ledger Sheets before journaling.

Inventory Reductions Other than Sales

The following information applies to inventory bookkeeping regardless of which Inventory management method (i.e., Perpetual or Periodic) is used.

An Inventory Account can be reduced for reasons other than sales. The same process of transferring value from the ASSET Inventory Account as shown in B. (p.109) can be used for other reasons <u>except</u> that instead of the COGS Account you need to identify the appropriate account name and number that is associated with the reason why the Inventory Account is being reduced.

Typical types of situations where the value of the ASSET Inventory Account requires reduction includes, but is not limited to, loss, theft, obsolescence, and changes in market value. Below is an example involving a write-off.

Note, <u>no</u> adjustments are made to the HST account as it remains a liability paid by the business for which ITC's would have been claimed.

Example A2-10: Inventory Written Off Due to Loss or Obsolescence

When inventory is lost for some reason (e.g., lost, theft, breakage, etc.) or becomes fully obsolete rendering it of <u>no value</u>, the balance of the inventory account needs to be adjusted to address the change in value.

On February 20, 2022 Bea's staff broke four jars of honey while cleaning shelves. As a result, Bea needs to reduce the value of the inventory for the full amount that she paid for the four jars of honey, i.e., $4.87 x 4 jars = $19.48.

In the following order:

A.   Bea needs to create a Source Document recording the loss.

February 20, 2022   Inventory Reduction

Four jars of honey purchased for $4.87 per unit ($19.48 total) broken during cleaning.

Verified by: *Bea Knees*

B.   Bea analyzes the transaction. The result is provided below:

Date of Transaction: February 20, 2022
Explanation: Inventory Loss Due to Breakage

5021		1050	
Inventory Adjustment/ Write-Off		Inventory Account	
Debit	Credit	Debit	Credit
$19.48			$19.48

C.   Bea records the transaction in the General Journal and applicable Subledger Sheets as illustrated below:

GENERAL JOURNAL   PAGE _1_

	2022 DATE		ACCOUNT	POST. REF.	DEBIT	CREDIT
1	Feb	20	Inventory Write-Off	5021	1 9 48	
2			Inventory Account	1050		1 9 48
3			To record inventory reduction re broken stock			
4						

GENERAL LEDGER SHEET   Sheet No.   1
Account: Inventory Adjustment/Write-Off   Account No.   5021

2022 DATE	Description	Journal Ref.	Transaction Dr	Transaction Cr	Balance Dr	Balance Cr
Feb-20	Broken Stock	GJ1	19.48		19.48	

GENERAL LEDGER SHEET   Sheet No.   1
Account: Inventory   Account No.   1050

2022 DATE	Description	Journal Ref.	Transaction Dr	Transaction Cr	Balance Dr	Balance Cr
Feb-01	Wholesale Foods Inv. 123	PJ1	146.10		146.10	
Feb-15	Huney's Chicken & Ribs, Inv. 899	GJ1		73.05	72.95	
Feb-20	Broken Stock	GJ1		19.48	53.47	

Observe through the use of arrow colour and direction how the value (balance) of the ASSET **Inventory Account** has been reduced by $19.48 and the EXPENSE **Inventory Write-Off Account** has been increased by $19.48. Once the transaction has been fully recorded the cross-referencing is completed as shown by the orange arrows.

As you can see, with the exception of a change to an account name and number that is related to stock items being written-off, the bookkeeping process for reducing the value of the Inventory Account remains the same.

Example A2-11: Partial Reduction in Stock Item Value

Ted's Computer Sales has ten B100 tablets within its inventory for which Ted paid $300 each. On March 1st the manufacturer releases its B200 Tablets which decreases the value of a B100 Tablet by $25.00. It would now cost Ted $275 to purchase a B100 tablet. Ted needs to record the change in value of B100 tablets within his **ASSET Inventory Account** and **EXPENSE Inventory Adjustment/Write-Off Account**.

In the following order:

A.   Ted creates a Source Document recording the loss. He would use a printout of the Manufacturer's Documentation/Screenshot validating a reduction in B100 tablet value and include the following information with it.

March 1, 2022   Manufacturer's Reduction in Value B100 Tablet

$25.00 Per Unit   Verified by: *Ted Wize*

B.   Ted analyzes the transaction. The outcome is provided below:

Date of Transaction: March 1, 2022
Explanation: B100 Stock Partial Obsolescence

5021		**1050**
Inventory Adjustment/Write-Off		Inventory Account

Debit	Credit	Debit	Credit
$250.00			$250.00

C.   Ted records the transaction in the General Journal and applicable Subledger Sheets as illustrated below:

GENERAL JOURNAL   **PAGE 1**

	2022 DATE		ACCOUNT	POST. REF.	DEBIT	CREDIT
1	Mar	1	Inventory Write-Off	5021	2 5 0 00	
2			Inventory Account	1050		2 5 0 00
3			To record B100 reduction re obsolescence			

GENERAL LEDGER SHEET   Sheet No.   1
Account: Inventory Adjustment/Write-Off   Account No.   5021

2022 DATE	Description	Journal Ref.	Transaction Dr	Transaction Cr	Balance Dr	Balance Cr
Mar-01	Reduction Value B100 stock	GJ1	250.00		250.00	

GENERAL LEDGER SHEET   Sheet No.   2
Account: Inventory   Account No.   1050

2022 DATE	Description	Journal Ref.	Transaction Dr	Transaction Cr	Balance Dr	Balance Cr
Mar-01	Balance Forward				10, 850.00	
Mar-01	Reduction Value B100 stock	GJ1		250.00	10,600.00	

Observe through the use of arrow colour and direction how the value (balance) of the ASSET **Inventory Account** has been reduced by $250.00 and the EXPENSE **Inventory Write-Off Account** has been increased by $250.00. Once the transaction has been fully recorded the cross-referencing is completed as shown by the orange arrows.

The bookkeeping process for reducing the value of inventory for reasons <u>other than sales</u> is the same regardless of whether Perpetual or Periodic Inventory methods are used.

APPENDIX 3 - PAYROLL

Depending upon the number of employees and complexity of the company's payroll system, small businesses can perform much of the payroll process a day or so in advance of the **Pay Run Date** (i.e., the **scheduled date that payroll is disbursed to employees**). The closer the preparation is done to the actual pay run date, the less likelihood of things changing (e.g., employee misses scheduled work) in the meantime that may influence an employee's pay.

There is no sugar coating it, **payroll is complex and "always" needs to be carefully completed for several reasons, including the fact that it is highly regulated by the federal and provincial governments**. The federal and provincial rules for administering payroll are very comprehensive, and their rules are often subject to exceptions which can make things even more complicated. Fortunately, there are many resources available to assist you in correctly administering payroll. In accounting, **Payroll** refers to **the calculation and processing of all payments and records related to the earnings of employees as well as income deductions** (e.g., Employment Insurance, Canada Pension Plan contributions, taxes, union dues, etc.). If your business has employees, you will need an account with the CRA[8].

*An Owner is self-employed,
but is <u>not</u> considered an employee of their business.
Monies disbursed to Owners are recorded as Owner Withdrawals
that are subject to personal taxation and deductions
outside of the Business.*

The federal and Ontario governments have resources to assist employers, many of which will be highlighted throughout this appendix. As well, the CRA regularly provides webinars to employers to educate on various payroll related topics.

**CRA HELPLINE FOR PAYROLL DEDUCTIONS
1-800-959-5525**
https://www.canada.ca/en/revenue-agency.html

**ONTARIO EMPLOYMENT STANDARDS INFORMATION CENTRE
1-800-531-5551**
Email: webes@ontario.ca
https://www.ontario.ca/page/ministry-labour-immigration-training-skills-development

While payroll administration is highly regulated, companies have some discretion in choosing how many reocurring pay periods per year it will use to calculate and pay their employees, and

[8] https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/payroll/How-open-payroll-account.html

the payment method (e.g., by cheque or direct deposit). Businesses may choose amongst various types of pay periods when paying their employees and, they may pay different types of employees (e.g., management and non-management employees) in different ways and at different times. The **period of time for which an employee is being paid for** is known as a **Pay Period.** As previously mentioned, Owners can choose how many reoccurring pay periods their business will have in a year. The frequencies include, but are not limited to,[9] the following:

Pay Period	Frequency	Pay Periods Per Calendar Year
Weekly	every 7 days	52
Bi-Weekly	every 14 days	26
Semi-Monthly (2x per month)	at mid month and month end	24
Every 4 Weeks	every 28 days	13
Monthly	at month end	12

Typically, the monies that are paid to employees for their work is called **Wages** **when** they are **paid at an hourly rate, monthly rate** or a **Salary**

> **It is <u>very</u> important when processing Payroll that the company's rules, employment agreements, collective agreements (agreements between the company and unions), and <u>all</u> government regulations are followed.**

The person who performs Payroll for your business should be/become very familiar with all legal requirements involved, which topic vastly exceeds the scope of this booklet. This booklet provides basic information concerning Payroll and on how to enter Payroll information into the company's financial books. Below a number of websites are provided to assist you access information you will need to know in order to process payroll correctly. Do not hesitate to use government resources and help lines available for assistance.

Canada Revenue Agency	https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/payroll.html
Employment Ontario	https://www.ontario.ca/page/employment-ontario
Government of Ontario – Employment Standards	https://www.ontario.ca/document/your-guide-employment-standards-act-0
Ontario E-Laws	https://www.ontario.ca/laws
Ontario Labour Relations Board	http://www.olrb.gov.on.ca/
Service Canada	https://www.canada.ca/en/employment-social-development/corporate/portfolio/service-canada.html

---

[9] Revenue Canada permits other pay periods not listed

Income and Exemptions

Income & Pay

Depending upon the nature of the business and the agreement of employment that the employer makes with the employee and legislated requirements, there are different types of income an employee may earn:

- Wages
- Overtime
- Time Plus (e.g., time & a half, double time)
- Salary
- Time in Lieu of Overtime
- Vacation Pay

- Time Differential
- Commission
- Bonuses

- Tips
- Profit Sharing
- Etc.

Be aware that it is possible for an employee to earn more than one type of income (e.g., wages plus overtime; Commission with or without salary, etc.) and, of the specific rate of taxation that applies to each type of income that individual employees earn.

Gross Pay the **amount of money earned by an employee before any deductions are made**

Net Pay the **amount of money paid to an employee after all deductions have been made**

INCOME EARNED AND PAID MUST BE TRACKED IN YOUR PAYROLL SYSTEM

BUSINESSES SHOULD DEVELOP INTERNAL CONTROL HR POLICIES FOR PROCEDURES FOR MAINTAINING ACCURATE RECORDS ON EMPLOYEE ATTENDANCE AND TIME WORKED.

Payroll Exemptions & TD1 Forms

Every time an employee is hired, you will ask them to provide a completed **TD1 – PERSONAL CREDIT RETURN (TD1)** form. This is **necessary for calculating how much tax should be withheld from Gross Pay.** There are two forms, one provincial and one federal.

The federal and provincial TD1 Forms can be accessed online from the CRA at:
https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/payroll/set-up-new-employee/filing-form-td1.html

Access the above website for a better view of the TD1 forms in the examples that follow.

Example A3-1: Sample Ontario TD1

Example A3-2: Sample Federal TD1

These forms indicate how much an employee is permitted to earn in a calendar year **before** taxes must be deducted from the employee's income and, they provide additional information (e.g., legal name, date of birth, address, social insurance number (SIN), etc.) that are needed for payroll and annual completion of T4-Statement of Remuneration Paid.   The TD1's should be updated by all employees at the beginning of each year when the CRA updates the forms in accordance with changes to the tax rules. It should also be updated upon request by the employee when there is a change in the employee's circumstances that would impact their personal tax exemption amount and *therefore the amount of money to be deducted from their pay*. If an employee would like additional taxes deducted from their pay, they would include the additional amount on their <u>federal</u> TD1 form.

Deductions

Once you have calculated an employee's gross pay, deductions need to be calculated before payment can be issued. There are two kinds of deductions:

Statutory Deductions **deductions legislated by the federal government that both employee and employer must pay** (e.g., Employment Insurance, Canada Pension Plan, and income taxes)

Non-Statutory Deductions **deductions that are <u>not legislated by federal government</u> for all employees,** (e.g., union dues, investments, charitable donations, parking, health related, etc., including deductions that may be a consequence of legislation such as family support payments or wage garnishments)

Statutory Deductions

At minimum, **Payroll Deduction Tables** are published by the CRA at the beginning of each year, in accordance with the current tax rules, which are to be **used for calculating the amount of statutory deductions.**

PAYROLL DEDUCTION TABLES CAN BE ACCESSED AT:
https://www.canada.ca/en/revenue-agency/services/forms-publications/payroll/t4032-payroll-deductions-tables/t4032on-jan/t4032on-january-general-information.html

PAYROLL DEDUCTION ONLINE CALCULATOR (PDOC) TOOL
https://www.canada.ca/en/revenue-agency/services/e-services/e-services-businesses/payroll-deductions-online-calculator.html

Statutory deductions are calculated separately for each employee based upon the frequency of the pay-period for the employee and their gross pay.

<div align="center">

**WHEN DETERMINING STATUTORY DEDUCTIONS, YOU MUST USE
THE MOST RECENT TABLES PUBLISHED BY THE CRA**

</div>

Employment Insurance (EI)

All employees, regardless of age, who work in Canada are required to pay a portion of their gross employment income per pay period for Employment Insurance, which is a federal program that provides limited financial assistance to eligible people when they are temporarily out of work. An employee's EI premium deductions are based on the amount of their gross pay for each pay-period, up to a maximum annual amount. Each year the federal government sets the Maximum Yearly Insurable Earnings and, when an employee's gross accumulated pay exceeds the maximum amount no further contributions would be required until the beginning of the next calendar year. An employee's **Insurable Earnings** equates to **the employee's gross pay up to the Maximum Yearly Insurable Earnings set for that year by the CRA**.

<div align="center">

****REMITTANCES TO THE CRA FOR EI INCLUDE
THE EMPLOYEE DEDUCTION AND THE EMPLOYER CONTRIBUTION****

</div>

The EI program also requires Employer Contributions. As of the date of release of this booklet, the Employer's contribution is equal to 1.4 times the employee's EI deduction. When remitting the contribution to the CRA, you would remit both the employee's deduction and the employer's contribution.

<div align="center">

Employer EI Contribution = Employee EI Deduction x 1.4

</div>

Example A3-3: Sample EI Premiums Table

This sample reflects an excerpt from the EI Premiums Table for 2022. Observe that, if for example, an employee's insurable earnings for the period are $373.50, you would search the table for the income range that this amount falls within (illustrated with yellow highlighting). The table indicates the corresponding premium to be deducted from the employee's gross income for this pay period is $5.90. In this example, the Employer's contribution would be $5.90 x 1.4 = $8.26 for this employee for that pay period. At the bottom of each page, (illustrated with green highlighting), the CRA indicates thresholds for the yearly maximum annual earnings and maximum annual employee premiums, as well as the premium rate for that year.

Employment Insurance Premiums

Insurable Earnings From	To	EI premium	Insurable Earnings From	To	EI premium	Insurable Earnings From	To	EI premium	Insurable Earnings From	To	EI premium
364.88	365.50	5.77	410.45	411.07	6.49	456.02	456.64	7.21	501.59	502.21	7.93
365.51	366.13	5.78	411.08	411.70	6.50	456.65	457.27	7.22	502.22	502.84	7.94
366.14	366.77	5.79	411.71	412.34	6.51	457.28	457.91	7.23	502.85	503.48	7.95
366.78	367.40	5.80	412.35	412.97	6.52	457.92	458.54	7.24	503.49	504.11	7.96
367.41	368.03	5.81	412.98	413.60	6.53	458.55	459.17	7.25	504.12	504.74	7.97
368.04	368.67	5.82	413.61	414.24	6.54	459.18	459.81	7.26	504.75	505.37	7.98
368.68	369.30	5.83	414.25	414.87	6.55	459.82	460.44	7.27	505.38	506.01	7.99
369.31	369.93	5.84	414.88	415.50	6.56	460.45	461.07	7.28	506.02	506.64	8.00
369.94	370.56	5.85	415.51	416.13	6.57	461.08	461.70	7.29	506.65	507.27	8.01
370.57	371.20	5.86	416.14	416.77	6.58	461.71	462.34	7.30	507.28	507.91	8.02
371.21	371.83	5.87	416.78	417.40	6.59	462.35	462.97	7.31	507.92	508.54	8.03
371.84	372.46	5.88	417.41	418.03	6.60	462.98	463.60	7.32	508.55	509.17	8.04
372.47	373.10	5.89	418.04	418.67	6.61	463.61	464.24	7.33	509.18	509.81	8.05
373.11	373.73	5.90	418.68	419.30	6.62	464.25	464.87	7.34	509.82	510.44	8.06
373.74	374.36	5.91	419.31	419.93	6.63	464.88	465.50	7.35	510.45	511.07	8.07
374.37	374.99	5.92	419.94	420.56	6.64	465.51	466.13	7.36	511.08	511.70	8.08
375.00	375.63	5.93	420.57	421.20	6.65	466.14	466.77	7.37	511.71	512.34	8.09
375.64	376.26	5.94	421.21	421.83	6.66	466.78	467.40	7.38	512.35	512.97	8.10
376.27	376.89	5.95	421.84	422.46	6.67	467.41	468.03	7.39	512.98	513.60	8.11
376.90	377.53	5.96	422.47	423.10	6.68	468.04	468.67	7.40	513.61	514.24	8.12
377.54	378.16	5.97	423.11	423.73	6.69	468.68	469.30	7.41	514.25	514.87	8.13
378.17	378.79	5.98	423.74	424.36	6.70	469.31	469.93	7.42	514.88	515.50	8.14
378.80	379.43	5.99	424.37	424.99	6.71	469.94	470.56	7.43	515.51	516.13	8.15
379.44	380.06	6.00	425.00	425.63	6.72	470.57	471.20	7.44	516.14	516.77	8.16
380.07	380.69	6.01	425.64	426.26	6.73	471.21	471.83	7.45	516.78	517.40	8.17
380.70	381.32	6.02	426.27	426.89	6.74	471.84	472.46	7.46	517.41	518.03	8.18
381.33	381.96	6.03	426.90	427.53	6.75	472.47	473.10	7.47	518.04	518.67	8.19
381.97	382.59	6.04	427.54	428.16	6.76	473.11	473.73	7.48	518.68	519.30	8.20
382.60	383.22	6.05	428.17	428.79	6.77	473.74	474.36	7.49	519.31	519.93	8.21
383.23	383.86	6.06	428.80	429.43	6.78	474.37	474.99	7.50	519.94	520.56	8.22
383.87	384.49	6.07	429.44	430.06	6.79	475.00	475.63	7.51	520.57	521.20	8.23
384.50	385.12	6.08	430.07	430.69	6.80	475.64	476.26	7.52	521.21	521.83	8.24
385.13	385.75	6.09	430.70	431.32	6.81	476.27	476.89	7.53	521.84	522.46	8.25
385.76	386.39	6.10	431.33	431.96	6.82	476.90	477.53	7.54	522.47	523.10	8.26
386.40	387.02	6.11	431.97	432.59	6.83	477.54	478.16	7.55	523.11	523.73	8.27
387.03	387.65	6.12	432.60	433.22	6.84	478.17	478.79	7.56	523.74	524.36	8.28
387.66	388.29	6.13	433.23	433.86	6.85	478.80	479.43	7.57	524.37	524.99	8.29
388.30	388.92	6.14	433.87	434.49	6.86	479.44	480.06	7.58	525.00	525.63	8.30
388.93	389.55	6.15	434.50	435.12	6.87	480.07	480.69	7.59	525.64	526.26	8.31
389.56	390.18	6.16	435.13	435.75	6.88	480.70	481.32	7.60	526.27	526.89	8.32
390.19	390.82	6.17	435.76	436.39	6.89	481.33	481.96	7.61	526.90	527.53	8.33
390.83	391.45	6.18	436.40	437.02	6.90	481.97	482.59	7.62	527.54	528.16	8.34
391.46	392.08	6.19	437.03	437.65	6.91	482.60	483.22	7.63	528.17	528.79	8.35
392.09	392.72	6.20	437.66	438.29	6.92	483.23	483.86	7.64	528.80	529.43	8.36
392.73	393.35	6.21	438.30	438.92	6.93	483.87	484.49	7.65	529.44	530.06	8.37
393.36	393.98	6.22	438.93	439.55	6.94	484.50	485.12	7.66	530.07	530.69	8.38
393.99	394.62	6.23	439.56	440.18	6.95	485.13	485.75	7.67	530.70	531.32	8.39
394.63	395.25	6.24	440.19	440.82	6.96	485.76	486.39	7.68	531.33	531.96	8.40
395.26	395.88	6.25	440.83	441.45	6.97	486.40	487.02	7.69	531.97	532.59	8.41
395.89	396.51	6.26	441.46	442.08	6.98	487.03	487.65	7.70	532.60	533.22	8.42
396.52	397.15	6.27	442.09	442.72	6.99	487.66	488.29	7.71	533.23	533.86	8.43
397.16	397.78	6.28	442.73	443.35	7.00	488.30	488.92	7.72	533.87	534.49	8.44
397.79	398.41	6.29	443.36	443.98	7.01	488.93	489.55	7.73	534.50	535.12	8.45
398.42	399.05	6.30	443.99	444.62	7.02	489.56	490.18	7.74	535.13	535.75	8.46
399.06	399.68	6.31	444.63	445.25	7.03	490.19	490.82	7.75	535.76	536.39	8.47
399.69	400.31	6.32	445.26	445.88	7.04	490.83	491.45	7.76	536.40	537.02	8.48
400.32	400.94	6.33	445.89	446.51	7.05	491.46	492.08	7.77	537.03	537.65	8.49
400.95	401.58	6.34	446.52	447.15	7.06	492.09	492.72	7.78	537.66	538.29	8.50
401.59	402.21	6.35	447.16	447.78	7.07	492.73	493.35	7.79	538.30	538.92	8.51
402.22	402.84	6.36	447.79	448.41	7.08	493.36	493.98	7.80	538.93	539.55	8.52
402.85	403.48	6.37	448.42	449.05	7.09	493.99	494.62	7.81	539.56	540.18	8.53
403.49	404.11	6.38	449.06	449.68	7.10	494.63	495.25	7.82	540.19	540.82	8.54
404.12	404.74	6.39	449.69	450.31	7.11	495.26	495.88	7.83	540.83	541.45	8.55
404.75	405.37	6.40	450.32	450.94	7.12	495.89	496.51	7.84	541.46	542.08	8.56
405.38	406.01	6.41	450.95	451.58	7.13	496.52	497.15	7.85	542.09	542.72	8.57
406.02	406.64	6.42	451.59	452.21	7.14	497.16	497.78	7.86	542.73	543.35	8.58
406.65	407.27	6.43	452.22	452.84	7.15	497.79	498.41	7.87	543.36	543.98	8.59
407.28	407.91	6.44	452.85	453.48	7.16	498.42	499.05	7.88	543.99	544.62	8.60
407.92	408.54	6.45	453.49	454.11	7.17	499.06	499.68	7.89	544.63	545.25	8.61
408.55	409.17	6.46	454.12	454.74	7.18	499.69	500.31	7.90	545.26	545.88	8.62
409.18	409.81	6.47	454.75	455.37	7.19	500.32	500.94	7.91	545.89	546.51	8.63
409.82	410.44	6.48	455.38	456.01	7.20	500.95	501.58	7.92	546.52	547.15	8.64

Yearly maximum insurable earnings are $60,300
Yearly maximum employee premiums are $952.74
The premium rate for 2022 is 1.58 %

C-3

Canada Pension Plan (CPP)

Employees, between the ages of 18 and 70, who are working in Canada must contribute a <u>portion of their earned income</u> to the Canada Pension Plan, which is a federal pension program that provides pension payments to eligible recipients in the event of disability, retirement, or to an eligible beneficiary upon death. An employee's CPP contributions are based on the amount of their gross pay for <u>each</u> pay-period, up to a maximum annual amount. Each year the CRA sets the **Maximum Pensionable Earnings** which **equates to the employee's gross earnings falling within that maximum pensionable earnings threshold**. When an employee's <u>accumulated</u> gross pay reaches the maximum amount no further contributions would be required until the beginning of the next calendar year. Determination of the CPP contribution rate for each employee is based upon the number of pay periods the employee will have in the calendar year in relation to their annual income.

<div align="center" style="color:red">

****REMITTANCES TO THE CRA FOR CPP INCLUDE
THE EMPLOYEE CONTRIBUTION <u>AND</u> THE EMPLOYER CONTRIBUTION****

</div>

The CPP program also requires Employer Contributions.[10] As of the date of release of this booklet, the Employer's contribution is equal to 1 times the employee's CPP contribution of 5.7%. When remitting the contribution to the CRA, you would remit both the employee's and the matching employer's contributions.

<div align="center">

Employer CPP Contribution = Employee CPP Deduction x 1

</div>

Example A3-4: Sample CPP Contributions Table

Each CPP Contribution Table is based on the number of pay periods per year (e.g., weekly for 52 pay periods, bi-weekly for 26 pay periods, etc.) when the employee will be paid. For example, applying the example of an employee who has a gross pay of $373.50 biweekly, an excerpt from the CPP <u>Biweekly</u> Table for 2022 is shown below to illustrate how the range of earnings that the gross pay amount is looked up in the table to find the corresponding contribution amount (highlighted in yellow), as well as the employee's maximum CPP contribution amount for the year (highlighted in green)

---

[10] Employer contributions are related to employee deductions. Employer contributions are <u>not</u> contributions of self-employed people. Owners <u>personally</u> contribute to CPP when they file their personal income taxes.

Canada Pension Plan Contributions
Biweekly (26 pay periods a year)

Pay From	Pay To	CPP	Pay From	Pay To	CPP	Pay From	Pay To	CPP	Pay From	Pay To	CPP
336.64	336.80	11.52	349.27	349.43	12.24	361.90	362.07	12.96	374.53	374.70	13.68
336.81	336.98	11.53	349.44	349.61	12.25	362.08	362.24	12.97	374.71	374.87	13.69
336.99	337.15	11.54	349.62	349.79	12.26	362.25	362.42	12.98	374.88	375.05	13.70
337.16	337.33	11.55	349.80	349.96	12.27	362.43	362.59	12.99	375.06	375.22	13.71
337.34	337.50	11.56	349.97	350.14	12.28	362.60	362.77	13.00	375.23	375.40	13.72
337.51	337.68	11.57	350.15	350.31	12.29	362.78	362.94	13.01	375.41	375.57	13.73
337.69	337.86	11.58	350.32	350.49	12.30	362.95	363.12	13.02	375.58	375.75	13.74
337.87	338.03	11.59	350.50	350.66	12.31	363.13	363.29	13.03	375.76	375.93	13.75
338.04	338.21	11.60	350.67	350.84	12.32	363.30	363.47	13.04	375.94	376.10	13.76
338.22	338.38	11.61	350.85	351.01	12.33	363.48	363.64	13.05	376.11	376.28	13.77
338.39	338.56	11.62	351.02	351.19	12.34	363.65	363.82	13.06	376.29	376.45	13.78
338.57	338.73	11.63	351.20	351.36	12.35	363.83	364.00	13.07	376.46	376.63	13.79
338.74	338.91	11.64	351.37	351.54	12.36	364.01	364.17	13.08	376.64	376.80	13.80
338.92	339.08	11.65	351.55	351.72	12.37	364.18	364.35	13.09	376.81	376.98	13.81
339.09	339.26	11.66	351.73	351.89	12.38	364.36	364.52	13.10	376.99	377.15	13.82
339.27	339.43	11.67	351.90	352.07	12.39	364.53	364.70	13.11	377.16	377.33	13.83
339.44	339.61	11.68	352.08	352.24	12.40	364.71	364.87	13.12	377.34	377.50	13.84
339.62	339.79	11.69	352.25	352.42	12.41	364.88	365.05	13.13	377.51	377.68	13.85
339.80	339.96	11.70	352.43	352.59	12.42	365.06	365.22	13.14	377.69	377.86	13.86
339.97	340.14	11.71	352.60	352.77	12.43	365.23	365.40	13.15	377.87	378.03	13.87
340.15	340.31	11.72	352.78	352.94	12.44	365.41	365.57	13.16	378.04	378.21	13.88
340.32	340.49	11.73	352.95	353.12	12.45	365.58	365.75	13.17	378.22	378.38	13.89
340.50	340.66	11.74	353.13	353.29	12.46	365.76	365.93	13.18	378.39	378.56	13.90
340.67	340.84	11.75	353.30	353.47	12.47	365.94	366.10	13.19	378.57	378.73	13.91
340.85	341.01	11.76	353.48	353.64	12.48	366.11	366.28	13.20	378.74	378.91	13.92
341.02	341.19	11.77	353.65	353.82	12.49	366.29	366.45	13.21	378.92	379.08	13.93
341.20	341.36	11.78	353.83	354.00	12.50	366.46	366.63	13.22	379.09	379.26	13.94
341.37	341.54	11.79	354.01	354.17	12.51	366.64	366.80	13.23	379.27	379.43	13.95
341.55	341.72	11.80	354.18	354.35	12.52	366.81	366.98	13.24	379.44	379.61	13.96
341.73	341.89	11.81	354.36	354.52	12.53	366.99	367.15	13.25	379.62	379.79	13.97
341.90	342.07	11.82	354.53	354.70	12.54	367.16	367.33	13.26	379.80	379.96	13.98
342.08	342.24	11.83	354.71	354.87	12.55	367.34	367.50	13.27	379.97	380.14	13.99
342.25	342.42	11.84	354.88	355.05	12.56	367.51	367.68	13.28	380.15	380.31	14.00
342.43	342.59	11.85	355.06	355.22	12.57	367.69	367.86	13.29	380.32	380.49	14.01
342.60	342.77	11.86	355.23	355.40	12.58	367.87	368.03	13.30	380.50	380.66	14.02
342.78	342.94	11.87	355.41	355.57	12.59	368.04	368.21	13.31	380.67	380.84	14.03
342.95	343.12	11.88	355.58	355.75	12.60	368.22	368.38	13.32	380.85	381.01	14.04
343.13	343.29	11.89	355.76	355.93	12.61	368.39	368.56	13.33	381.02	381.19	14.05
343.30	343.47	11.90	355.94	356.10	12.62	368.57	368.73	13.34	381.20	381.36	14.06
343.48	343.64	11.91	356.11	356.28	12.63	368.74	368.91	13.35	381.37	381.54	14.07
343.65	343.82	11.92	356.29	356.45	12.64	368.92	369.08	13.36	381.55	381.72	14.08
343.83	344.00	11.93	356.46	356.63	12.65	369.09	369.26	13.37	381.73	381.89	14.09
344.01	344.17	11.94	356.64	356.80	12.66	369.27	369.43	13.38	381.90	382.07	14.10
344.18	344.35	11.95	356.81	356.98	12.67	369.44	369.61	13.39	382.08	382.24	14.11
344.36	344.52	11.96	356.99	357.15	12.68	369.62	369.79	13.40	382.25	382.42	14.12
344.53	344.70	11.97	357.16	357.33	12.69	369.80	369.96	13.41	382.43	382.59	14.13
344.71	344.87	11.98	357.34	357.50	12.70	369.97	370.14	13.42	382.60	382.77	14.14
344.88	345.05	11.99	357.51	357.68	12.71	370.15	370.31	13.43	382.78	382.94	14.15
345.06	345.22	12.00	357.69	357.86	12.72	370.32	370.49	13.44	382.95	383.12	14.16
345.23	345.40	12.01	357.87	358.03	12.73	370.50	370.66	13.45	383.13	383.29	14.17
345.41	345.57	12.02	358.04	358.21	12.74	370.67	370.84	13.46	383.30	383.47	14.18
345.58	345.75	12.03	358.22	358.38	12.75	370.85	371.01	13.47	383.48	383.64	14.19
345.76	345.93	12.04	358.39	358.56	12.76	371.02	371.19	13.48	383.65	383.82	14.20
345.94	346.10	12.05	358.57	358.73	12.77	371.20	371.36	13.49	383.83	384.00	14.21
346.11	346.28	12.06	358.74	358.91	12.78	371.37	371.54	13.50	384.01	384.17	14.22
346.29	346.45	12.07	358.92	359.08	12.79	371.55	371.72	13.51	384.18	384.35	14.23
346.46	346.63	12.08	359.09	359.26	12.80	371.73	371.89	13.52	384.36	384.52	14.24
346.64	346.80	12.09	359.27	359.43	12.81	371.90	372.07	13.53	384.53	384.70	14.25
346.81	346.98	12.10	359.44	359.61	12.82	372.08	372.24	13.54	384.71	384.87	14.26
346.99	347.15	12.11	359.62	359.79	12.83	372.25	372.42	13.55	384.88	385.05	14.27
347.16	347.33	12.12	359.80	359.96	12.84	372.43	372.59	13.56	385.06	385.22	14.28
347.34	347.50	12.13	359.97	360.14	12.85	372.60	372.77	13.57	385.23	385.40	14.29
347.51	347.68	12.14	360.15	360.31	12.86	372.78	372.94	13.58	385.41	385.57	14.30
347.69	347.86	12.15	360.32	360.49	12.87	372.95	373.12	13.59	385.58	385.75	14.31
347.87	348.03	12.16	360.50	360.66	12.88	373.13	373.29	13.60	385.76	385.93	14.32
348.04	348.21	12.17	360.67	360.84	12.89	373.30	373.47	13.61	385.94	386.10	14.33
348.22	348.38	12.18	360.85	361.01	12.90	373.48	373.64	13.62	386.11	386.28	14.34
348.39	348.56	12.19	361.02	361.19	12.91	373.65	373.82	13.63	386.29	386.45	14.35
348.57	348.73	12.20	361.20	361.36	12.92	373.83	374.00	13.64	386.46	386.63	14.36
348.74	348.91	12.21	361.37	361.54	12.93	374.01	374.17	13.65	386.64	386.80	14.37
348.92	349.08	12.22	361.55	361.72	12.94	374.18	374.35	13.66	386.81	386.98	14.38
349.09	349.26	12.23	361.73	361.89	12.95	374.36	374.52	13.67	386.99	387.15	14.39

Employee's maximum CPP contribution for the year 2022 is $3,499.80

B-43

Income Tax

The employment income of <u>all</u> employees is subject to both federal and provincial income taxes, in accordance with the information reported and claim code from their TD1s. Each Income Tax Table is based on the number of pay periods per year (e.g., weekly for 52 pay periods, bi-weekly for 26 pay periods, etc.) when the employee will be paid. An employee must earn a minimum amount in order for income tax deductions to apply. Ontario employers remit employee income tax deductions to the CRA. The amount to be remitted to the CRA is only for the employee's deduction, (i.e., there is no employer contribution).

<p style="text-align:center;color:red;">**AMOUNT REMITTED TO CRA = EMPLOYEE DEDUCTION**</p>

Example A3-5: Sample Federal Tax Deduction Table

Applying the example of an employee who has a gross pay of $373.50 biweekly, you can see from an excerpt from the 2022 Federal Tax Deduction Table below that regardless of the Claim Code on the employee's TD1 form, the employee does not earn enough income for federal income tax deductions. Now assume the employee earned $737.50 bi-weekly and has a Claim Code 1 on their TD1 form. According to the Table, $13.15 should be deducted for federal income tax for that pay period.

Federal tax deductions
Effective January 1, 2022
Biweekly (26 pay periods a year)
Also look up the tax deductions in the provincial table

Pay From	Less than	CC 0	CC 1	CC 2	CC 3	CC 4	CC 5	CC 6	CC 7	CC 8	CC 9	CC 10
	643	* (1)	.00									
643 -	647	83.45	.35									
647 -	651	84.00	.90									
651 -	655	84.55	1.50									
655 -	659	85.10	2.05									
659 -	663	85.65	2.60									
663 -	667	86.20	3.15									
667 -	671	86.75	3.70									
671 -	675	87.35	4.25									
675 -	679	87.90	4.80									
679 -	683	88.45	5.35									
683 -	687	89.00	5.95									
687 -	691	89.55	6.50									
691 -	695	90.10	7.05	.05								
695 -	699	90.65	7.60	.60								
699 -	703	91.20	8.15	1.15								
703 -	707	91.80	8.70	1.70								
707 -	711	92.35	9.25	2.25								
711 -	715	92.90	9.80	2.80								
715 -	719	93.45	10.40	3.35								
719 -	723	94.00	10.95	3.95								
723 -	727	94.55	11.50	4.50								
727 -	731	95.10	12.05	5.05								
731 -	735	95.65	12.60	5.60								
735 -	739	96.25	13.15	6.15								
739 -	743	96.80	13.70	6.70								
743 -	747	97.35	14.30	7.25								
747 -	751	97.90	14.85	7.80								
751 -	755	98.45	15.40	8.40								
755 -	759	99.00	15.95	8.95								
759 -	763	99.55	16.50	9.50								
763 -	767	100.10	17.05	10.05								
767 -	771	100.70	17.60	10.60								
771 -	775	101.25	18.15	11.15								
775 -	779	101.80	18.75	11.70								

Example A3-6: Sample Ontario Tax Deduction Table

Applying the same examples, first of an employee who has a gross pay of $373.50 biweekly, you can see from the excerpt from the Ontario Tax Deduction Table below that regardless of the Claim Code on the employee's TD1 form, the employee does not earn enough income for Ontario income tax deductions. Now assume the employee earned $737.50 in the two-week pay period and has a Claim Code 1 on their TD1 form. According to the table below, $6.65 should be deducted for Ontario income tax for that pay period.

Ontario provincial tax deductions
Effective January 1, 2022
Biweekly (26 pay periods a year)
Also look up the tax deductions in the federal table

Pay From	Less than	CC 0	CC 1	CC 2	CC 3	CC 4	CC 5	CC 6	CC 7	CC 8	CC 9	CC 10
	666	* (1)	.00									
666 -	670	31.65	.30									
670 -	674	31.85	.65									
674 -	678	32.05	1.05									
678 -	682	32.25	1.40									
682 -	686	32.40	1.80									
686 -	690	32.60	2.15									
690 -	694	32.80	2.55									
694 -	698	33.00	2.90									
698 -	702	33.15	3.30									
702 -	706	33.35	3.65									
706 -	710	33.55	4.05									
710 -	714	33.75	4.40									
714 -	718	33.90	4.80	.10								
718 -	722	34.10	5.15	.50								
722 -	726	34.30	5.55	.85								
726 -	730	34.50	5.90	1.25								
730 -	734	34.65	6.30	1.60								
734 -	738	34.85	6.65	2.00								
738 -	742	35.05	7.05	2.35								
742 -	746	35.20	7.40	2.75								
746 -	750	35.40	7.75	3.10								
750 -	754	35.60	8.15	3.50								
754 -	758	35.80	8.55	3.85								
758 -	762	35.95	8.90	4.25								
762 -	766	36.15	9.25	4.60								
766 -	770	36.35	9.65	5.00								
770 -	774	36.70	10.20	5.55	.15	.15	.15	.15	.15	.15	.15	.15
774 -	778	37.15	10.80	6.15	.40	.40	.40	.40	.40	.40	.40	.40
778 -	782	37.55	11.40	6.75	.65	.65	.65	.65	.65	.65	.65	.65

Consequently, for this employee a total of $19.80 (i.e., $13.15 federal income tax + $6.65 Ontario income tax) should be remitted to the CRA for this employee's combined income taxes.

Non-Statutory Deductions

An employer may process other non-legislated deductions from their employee's earnings, including voluntary (e.g., charitable donations, social activity fund, etc.) and mandatory upon hiring (e.g., life insurance, group health benefits, company pension, union dues, etc.). Some non-statutory deductions are considered taxable benefits.

Taxable Benefits includes money and/or items with monetary value received by employees in addition to their earned income (e.g., company provided vehicle, board and lodging, group term life insurance, tuition fees, transit passes, clothing or tool reimbursement or allowance, etc.)

There is considerable information and rules surrounding taxable benefits. Some taxable benefits may be subject to HST. For further information including, but not limited to, how to calculate and make payroll deductions where there are taxable benefits, please refer to:

EMPLOYERS' GUIDE
TAXABLE BENEFITS AND ALLOWANCES
https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/t4130/employers-guide-taxable-benefits-allowances.html

There are two types of non-statutory deductions that employers are legally required to make when notified for some employees: family support payments and wage garnishments. In Ontario, family support payments are required by law to be deducted directly from the income of support payers, these payments are submitted to the Family Responsibility Office. Wage garnishments arise from legislation and/or legal matters where a judge has determined it is appropriate for deductions to be made from an employee's income in payment of a debt – the employee may have requested or agreed to this at the time payment was discussed before the court or the judge may have solely determined a wage garnishment to be appropriate. These funds are remitted to the court issuing the garnishment. Although family support payments and wage garnishments are ultimately tied to legislation, they are not deemed to be statutory deductions because they are not legislated as applicable to every employee. Specifically, employees without family support obligations or wage garnishments are not subject to these deductions. Employers cannot and should not discriminate against employees who have these types of deductions.

Vacation Pay

In accordance with the Employment Standards Act, all employees are eligible for vacation pay based upon time worked. Vacation pay is calculated as a percentage of gross income. For further information including, but not limited to, how to calculate and issue vacation pay, please refer to:

YOUR GUIDE TO THE EMPLOYMENT STANDARDS ACT
– VACATION
https://www.ontario.ca/document/your-guide-employment-standards-act-0/vacation

Depending on the company and/or the type of employment contract, some companies will pay vacation pay every pay period for employees, whereas other companies will retain its employees' vacation pay and will pay it, during regular pay periods, while the employee is on vacation. When vacation pay is paid out to employees every pay period, they do not receive any funds during the time away from work for vacation. Vacation pay is taxable income and accordingly, is subject to statutory deductions.

VACATION PAY IS DIFFERENT FROM STATUTORY HOLIDAY PAY!

Statutory Holiday Pay

Statutory holiday pay must be administered in accordance with the Employment Standards Act.

Statutory Holiday Pay   Premium pay that is paid to employees working on public holidays pursuant to the Employment Standards Act

For further information on public holidays in Ontario including when and how to apply statutory holiday pay, please refer to:

YOUR GUIDE TO THE EMPLOYMENT STANDARDS ACT
– PUBLIC HOLIDAYS
https://www.ontario.ca/document/your-guide-employment-standards-act-0/public-holidays#:~:text=If%20an%20employee%20is%20entitled,pay%20for%20each%20hour%20worked.

Payroll Advances

As an employer you may experience an employee request for a payroll advance. While providing payroll advances may offer benefits for employees, doing so can make a complex payroll process even more complicated, increasing the risk of error and non-compliance with government regulations. Often employees will have other methods for obtaining needed funds (e.g., lines of credit, loans, credit cards, etc.) to see them through to their next pay and sometimes they will not. Employers are not required to provide payroll advances to their employees. Owners establish human resources (HR) policies (an internal control) for their businesses that need to comply with legislation. In the case of Payroll Advances, the Owner can set an HR policy that either stipulates that Payroll Advances will not be permitted or, if you choose otherwise, identifying rules and procedures that you will implement surrounding them. Prior to providing a payroll advance, ensure to contact the CRA to ensure that you are correctly calculating and making the required statutory deductions from the payroll advance as well as from the employee's future pay(s) in consideration of the advance.

**EMPLOYER'S GUIDE – PAYROLL DEDUCTIONS AND REMITTANCES
CHAPTER 6 – SPECIAL PAYMENTS**

https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/t4001/employers-guide-payroll-deductions-remittances.html#P877_948271

or call the CRA Employer helpline for assistance
1-800-959-5525

Payroll Records

Unless otherwise directed by the federal **and** provincial governments, or recommended by your business accountant or legal representative, typically businesses retain all employment related records for a minimum of five to seven years.

In addition to the TD1's and sign-up sheets for non-statutory benefits, other payroll records include the Payroll Register, Employee Payroll Records, Employee Pay Statements, and accrued vacation records if applicable.

> **An employer must have a system in place for tracking the attendance of each salaried employee (e.g., attendance record) and the time worked by each wage employee (e.g., time-sheets) which records are the source documents for preparation of the payroll register.**

Payroll Register

A **Payroll Register** is a ledger that employers keep to record earnings, deductions and payments for all their employees.

Example A3-8: Sample Ontario Payroll Register

PAYROLL REGISTER

For Pay Period: _____ to _____   Date of Pay Run: _____

Employee Name	Employee No.	Claim Code	Hours		Earnings					Deductions						Net Pay	Cheque No./ Direct Deposit No.
			Regular	Overtime (OT)	Regular	OT	Vacation Pay	(Other)	Total Gross Pay	Federal Tax	Ontario Tax	CPP	EI	(Other)	Total Deductions		
		TOTALS:															

If the Bookkeeper is not you, consider developing an internal control HR policy requiring your signed authorization on the Payroll Register prior to processing each payroll.

Observe from the illustration:

- the **date that payroll is disbursed to employees** is the **Pay Run** date
- Columns labeled as "(Other)" are placeholders for other income to be issued to employee (e.g., earnings, taxable benefits, bonuses, etc.) or deductions (e.g., union dues, charitable donations, staff funds, etc.).to be made from the employee's Total Gross Pay. A separate column should be given for each type of income and deduction possible within your company's payroll system
- The information for each employee is recorded on a separate row
- The payroll register needs to be verified as balanced before any monies are issued to employees. The Register is balanced as follows:

  i. Separately add up each of the columns under Earnings, Deductions, and Net Pay placing the column totals in the applicable box in the "TOTALS" row.

  ii. Add all the TOTALS columns highlighted in yellow – this combined total must equal the amount of Total Gross Pay for all employees that was written in the green box to the immediate right during step (i).

  iii. Add all the TOTALS columns highlighted in pink – this combined total must equal the amount of Total Deductions for all employees that was written in the blue box to the immediate right during step (i).

  iv. Check to ensure that **Total Gross Pay – Total Deductions = Net Pay** in the TOTALS row for all employees combined.

Troubleshooting: If the Payroll Register does not balance, check the math on each of the columns for the error(s). If required, further backtrack to applying this formula to each employee row and check the math used in each employee row to find the error(s).

Once the Pay Register has been balanced, you can proceed with the next steps in processing the payroll, which is updating the Employee Payroll Record and preparing the Employee Pay Statement. The Employee Pay Record and Pay Statement will be covered after a brief discussion on accrued vacation records.

Accrued Vacation Records

The information provided in this section is done so with considerable generality. At all times the employer must ensure that they are following legislated and contractual requirements for administration and recordkeeping of vacation that is applicable to their business operations.

<p style="text-align:center">YOUR GUIDE TO THE EMPLOYMENT STANDARDS ACT
– VACATION
https://www.ontario.ca/document/your-guide-employment-standards-act-0/vacation</p>

As previously mentioned, employees are entitled to vacation pay based upon time worked. The Guide referenced above provides comprehensive information on how to calculate and administer vacation pay.

Businesses that accrue (retain) their employees' vacation pay for disbursement during periods of vacation are required to maintain vacation records. Typically, when businesses accrue employee vacation pay it is done for salaried employees where annual vacation entitlements are easily calculated and allocated at the beginning of the year based on the assumption that the employee will work and earn the allocated vacation within that year. Should an employee leave prior to the year's end, the employer would be required to calculate actual earned vacation (i.e., the vacation entitlement) to the last day worked and to pay out any vacation entitlement that has not been used; however, should the employee use more of the vacation allocation than they have actually earned, the employee is required to pay back the unearned portion.

Vacation time used is typically calculated to two decimal points (e.g., exactly one and half days of used vacation = 1.50 days). At year end, typically accrued but unused vacation time is paid out during the last pay run of the year after making all required deductions.

Individual vacation records are maintained for each employee. An example of one format is illustrated as follows:

Example A3-9: Sample Employee Vacation Record

EMPLOYEE VACATION RECORD
For January 1 to December 31, 2022

Employee Name: Betty Rubble

Employee Address:
123 Bedrock, ON   A#A #A#

Employee Number: E060BRU

Employee SIN: 222 333 555

Date	Allocation (# days)	Days Requested (#)	Days Approved (#)	Vacation Dates Approved (list dates & # days)	Vacation Dates Taken (√/ X)	Vacation Taken (# days)	Vacation Remaining (# days)
01-Jan	15						15
01-Mar		5.5	5.5	May 20 (.5)	X		
				May 23 (1)	√	1	14
				May 24 (1)	√	1	13
				May 25 (1)	√	1	12
				May 26 (1)	√	1	11
				May 27 (1)	√	1	10
01-Jun		1	1	August 2 (1)			

Observe that Betty Rubble, who is a full-time employee that is paid a monthly salary, was allocated 15 days vacation entitlement on January 1. The vacation allocation is equivalent to the number of days vacation Betty will earn if she works through to the end of the year. On March 1 Betty's approved vacation request was entered into her vacation record showing the dates that have been pre-approved for her vacation from May 20th to May 27th. On May 20th we can see that Betty intends to work part of the day, taking exactly half of the day off as vacation. However, when May 20th came Betty did not end up leaving early as planned and works the entire day. Therefore, only the five actual days taken for vacation are applied against the vacation remaining days. The last entry on June 1 shows that Betty has requested to take August 2 off as vacation and that this request has been approved. At this point there are 10 actual vacation days remaining which is not reduced until Betty actually takes vacation time.

Alternatively, some employers may choose to reduce the vacation remaining days by the vacation time requested and approved, however the vacation remaining will need to be adjusted depending upon whether the approved vacation is actually taken or not. The important thing is, regardless of which way the employer decides to communicate vacation remaining days, the bookkeeper and the employees know how vacation days reported are calculated so that there is no confusion as to how many actual vacation days are remaining.

Similar to how the Pay Register is created for all employees, an employee vacation register can be created which may make it easier when preparing employee pay statements that include vacation information.

Example A3-10: Sample Employee Vacation Register

VACATION REGISTER - 2022

Pay Run #: _____

Employee Name	Employee Number	Allocated Vacation Days (#)	Vacation Days Requested & Approved (#)	Vacation Days Taken (#)	Vacation Days Remaining** (#)

** Allocated Vacation Days - Vacation Days Taken = Vacation Days Remaining

Employee Payroll Record

An **Employee Payroll Record** (also called an **Employee Earnings Record**) is **used to maintain payroll information separately for each employee** during the course of the tax (calendar) year. Employee payroll records makes answering questions, troubleshooting issues, and preparing T4 – Statement of Remuneration (i.e., T4 slips) that much easier. T4 slips must be given to employees (and required information filed with the CRA) no later than the last day of February of the year following the year the income was earned.

T4 - INFORMATION FOR EMPLOYERS
https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/payroll/completing-filing-information-returns/t4-information-employers/t4-slip.html

Ask the CRA about their webform tool to see if using it is right for your business.

Example A3-11: Sample Employee Payroll Record – Paid Monthly

This sample is for an employee who is paid 12 times per year so has 12 rows, one for each **Pay Run** (i.e., **pay date for each pay period**). The number of rows required in the Employee Payroll Record depends upon the frequency of pay-periods and corresponding pay runs (e.g.12 for monthly, 26 for bi-weekly, 52 for weekly, etc.).

EMPLOYEE PAYROLL RECORD - PAID MONTHLY

For January 1 to December 31, 20__

Employee Name:		Employee Number:
Employee Address:		Employee SIN:
		Employee Claim Code:

Pay Run #	Hours		Earnings					Deductions						Net Pay	Cheque No./ Direct Deposit No.
	Regular	Overtime (OT)	Regular	OT	Vacation Pay	(Other)	Total Gross Pay	Federal Tax	Ontario Tax	CPP	EI	(Other)	Total Deductions		
1															
2															
3															
4															
5															
6															
7															
8															
9															
10															
11															
12															
TOTALS:															

Observe from the illustration above how the Employee Payroll Record contains the same information as the Payroll Register, except that the information is for one employee only.

Each transaction entered into the Payroll Register is recorded into the applicable Employee's Payroll Record. During the course of the year, when entering information into this record, ensure that **Total Gross Pay – Total Deductions = Net Pay** for each row of information entered. At the end of the calendar year, the columns are totalled and checked to ensure they balance in the same manner as is done for the Payroll Register. Once completed and balanced, you have the information at your finger tips to complete the Employee's Pay Statement as well as for annual T4 slips.

It is good practice to double check to ensure that Employee Payroll Records reconcile with the Payroll Register during each Pay Run.

Employee Pay Statement

The Employee Payroll Record is the Source Document for creation of Employee Pay Statements. Regardless if an employee's pay is paid by cheque or electronic deposit into their bank account, the employer is required to provide the employee with a pay statement for each pay period. The employer should retain a copy (paper or electronic) of each pay statement on file. There are no regulations as to how an employee pay statements are designed, however there are rules regarding information that must be contained in the statement.   At minimum, the contents of a pay statement must meet the requirements set out in the Employment Standards Act:

YOUR GUIDE TO THE EMPLOYMENT STANDARDS ACT
– PAYMENT OF WAGES
https://www.ontario.ca/document/your-guide-employment-standards-act-0/payment-wages#section-2

The example below illustrates just one design of an Employee Pay Statement.

Example A3-12: Sample Employee Pay Statement

As previously mentioned, employers may accrue and pay out vacation pay during actual periods of vacation so that the employees do not experience an interruption in pay. In such cases, the employer may also include an area on the pay statement for vacation information or alternatively, report vacation information under Notes in the example above.

Schedule of Pay Runs

Prior to the beginning of each year, a schedule should be created outlining each **Pay Run**, which is **the date that payroll will be paid for a pay period**. Typically, the number of pay runs in a year equals the number of pay periods in a year, e.g., 12 pay periods = 12 pay runs. However, some employers who calculate employee earnings based upon a monthly pay frequency will regularly "advance" some of the earnings midway through the month, thereby doubling the number of pay runs. Advancing earnings in this manner is different from a semi-monthly pay frequency because the employer is using "monthly" pay frequency tables to calculate deductions, whereas employers who calculate and pay their employees semi-monthly would be using "semi-monthly" pay frequency tables to calculate deductions.

In the example below, the employer would be paying employees only once per month.

Example A3-13: Pay Run Schedule for Monthly Pay Frequency

XYZ Company
Monthly Pay Run Schedule for Year: 2022

Pay Run #	Pay Run Date	Pay Period Starting	Pay Period Ending
1	January 31	January 1	January 31
2	February 28	February 1	February 28
3	March 31	March 1	March 31
4	April 29	April 1	April 30
5	May 31	May 1	May 31
6	June 30	June 1	June 30
7	July 29	July 1	July 31
8	August 31	August 1	August 31
9	September 30	September 1	September 30
10	October 31	October 1	October 31
11	November 30	November 1	November 30
12	December 30	December 1	December 30

Observe how each pay run has a specifically scheduled Pay Run date that payroll will be paid out to employees. In this example the pay run date is the last business day of each month. Each pay period has a set starting date and ending date. Altogether, the pay periods cover every day of the calendar year.

With the above tools in hand, we are now ready to process Payroll.

Processing Payroll

Processing payroll involves:

<u>Pre-Pay Run Tasks</u>

1. Prepare Payroll Register ensuring it is balanced

2. Update individual Employee Payroll Records – all information should be completed except cheque number/direct deposit number – for the upcoming pay run

3. Prepare the Employee Pay Statements

4. Record Payroll related Expense and Liabilities into the Financial Books

5. Transfer monies from business operating bank account into Payroll Bank Account

<u>Pay Run Tasks</u>

6. Complete Payroll Run:

   - Prepare cheques for employees
   - Update the Pay Register and Employee Payroll Records with cheque/direct deposit information

7. Update Financial Records to record payments to employees

<u>Post Pay Run Tasks</u>

8. Calculate Employer Contributions & CRA Remittance

9. Transfer Employer Contribution amount to Payroll Bank Account

10. Remitting Information and Payment to the CRA

11. Update Financial Records to record payment to CRA

The information provided thus far has prepared you to perform the first three pre-pay run tasks. Below instruction continues for the remaining tasks.

Recording Payroll into Financial Books

Having a separate bank account for payroll is a good method of internal control for preventing fraud and embezzlement, inadvertently overspending on purchases using monies owed to employees, and it can help narrow records to backtrack through when troubleshooting issues.

Payroll Journal Entry   record of employee earnings for a pay period

As previously instructed, doing Payroll begins with preparation of the Payroll Register. The Payroll Register is the source document for the payroll transactions. Once you have completed

the first three pre-pay run tasks, there are two additional tasks to be completed **before** employees can be paid.

<p style="text-align:center; color:red;">**Note at this point we are <u>only dealing with employee related requirements</u>**</p>

Payroll is an expense of the company for salary and wages to provide services and/or products. Although an expense, until the monies related to payroll are actually paid out, they are also short-term (current) liabilities of the company. It is important to distinguish that Employee Deductions are payroll "Liabilities" because they are money that is owed by the Company to the CRA on behalf of the employees, whereas the Employer Contributions that will be later dealt with are payroll related "Expenses" of the Company that is paid to the CRA.

Example A3-14: McDuck Enterprises

McDuck Enterprises has three long-term part-time employees who are each entitled to 6% vacation pay on regular earnings, which is paid out each pay period. The company has 26 pay runs per year based on bi-weekly pay periods. Below is a copy of the Payroll Register for the first pay run covering the period January 1 to January 14, 2022. It is January 13, 2022 and Mr. McDuck is starting the payroll process for the next day's pay run. Here is the Payroll Register that Mr. McDuck has prepared from his employees' time sheets:

<div style="text-align:center;">**PAYROLL REGISTER**</div>

For Pay Period: January 1 to January 14, 2022   Date of Pay Run: January 14, 2022

Employee Name	Employee No.	Claim Code	Hours		Earnings					Deductions							Cheque No./ Direct Deposit No.
			Regular	Overtime (OT)	Regular	OT	Vacation Pay	(Other)	Total Gross Pay	Federal Tax	Ontario Tax	CPP	EI	(Other)	Total Deductions	Net Pay	
Jimney Cricket	E020JC	01	35.0		630.00		37.8		667.80	3.70	0.30	30.39	10.55		44.94	622.86	321
Mickey Mouse	E030MIM	01	28.00		448.00		26.88		474.88	0.00	0.00	19.40	7.50		26.90	447.98	
Mandi Mouse	E010MAM	01	62.00		1,364.00		81.84		1,445.84	112.45	61.25	74.74	22.84		271.28	1,174.56	
			TOTALS:		2,442.00		146.52		2,588.52	116.15	61.55	124.53	40.89		343.12	2,245.40	

TASK 4:   Record Payroll as a Liability

Payroll is a liability of the business as it is money that is owed by the company and must be recorded in the Financial Books as a short-term liability. In the case of Example A3-14, the payroll liability consists of[11]:

- Earnings Payable *to employees*
- CPP Payable *to CRA on behalf of Employees*
- EI Payable *to CRA on behalf of Employees*
- Employee Income Tax (Federal & Provincial) Payable *to CRA on Behalf of Employees*

---

[11] There may be other payroll liabilities depending upon the earnings and benefits provided by your company and applicable deductions

The General Journal (GJ) is used to record the transaction which involves one EXPENSE account, the Salaries and Wages Expense and the following four LIABILITIES Accounts:

CPP Deduction ➤ CPP Payable
EI Deduction ➤ EI Payable
Federal Tax Deduction ➤ Payroll Income Tax Payable

Net Earnings Owed ➤ Wages Payable

The transaction will increase the balance of both accounts. When analyzing the transaction you will note, in accordance with Table 1, that a Debit will increase the balance of the EXPENSE Salaries & Wages Expense account and a Credit will increase the balance of the LIABILITIES payable accounts. Following analysis of the transaction (using TAM p.11), the transaction would be posted to the GJ, following the process covered in Chapter 5 – Journals, as illustrated below:

Example A3-15: Initial GJ and GL Entries for Example A3-14

GENERAL JOURNAL   PAGE _1_

	2022 DATE		ACCOUNT	POST. REF.	DEBIT					CREDIT				
1	Jan	13	Salaries & Wages Expense	5400	2	5	8	8	52					
2			CPP Payable	2004							1	2	4	53
3			EI Payable	2005								4	0	89
4			Payroll Income Tax Payable	2006							1	7	7	70
5			Wages Payable	2003						2	2	4	5	40
6														

Next, as instructed in Chapter 8 – Ledgers, transactions in the GJ need to be posted to the General Ledger (GL) daily. The transaction is immediately posted to the GL and once this is completed, cross-referencing is done between the GJ and GL account sheets.

GENERAL LEDGER SHEET

Account: Wages & Salaries Expense

Sheet No.	1
Account No.	5400

2022 DATE	Description	Journal Ref.	Transaction		Balance	
			Dr	Cr	Dr	Cr
Jan-13	Pay Run #1	GJ1	2,588.52		2,588.52	

GENERAL LEDGER SHEET

Account: Wages Payable

Sheet No.	1
Account No.	2003

2022 DATE	Description	Journal Ref.	Transaction		Balance	
			Dr	Cr	Dr	Cr
Jan-13	Pay Run #1	GJ1		2,245.40		2,245.40

GENERAL LEDGER SHEET

Account: CPP Payable

Sheet No.	1
Account No.	2004

2022 DATE	Description	Journal Ref.	Transaction		Balance	
			Dr	Cr	Dr	Cr
Jan-13	Pay Run #1	GJ1		124.53		124.53

GENERAL LEDGER SHEET

Account: EI Payable

Sheet No.	1
Account No.	2005

2022 DATE	Description	Journal Ref.	Transaction		Balance	
			Dr	Cr	Dr	Cr
Jan-13	Pay Run #1	GJ1		40.89		40.89

GENERAL LEDGER SHEET

Account: Payroll Income Tax Payable

Sheet No.	1
Account No.	2006

2022 DATE	Description	Journal Ref.	Transaction		Balance	
			Dr	Cr	Dr	Cr
Jan-13	Pay Run #1	GJ1		177.70		177.70

At this point McDuck's financial records accurately reflect the business expense for employee salaries and wages in the amount of $2,588.52 for pay run #1 and, the liabilities owed to employees (Wages Payable) and the CRA (CPP, EI and Income Taxes payable) totaling $2,588.52, passing the double-entry test.

TASK 5. Transfer Funds to Payroll Bank Account

Next, Mr. McDuck transfers funds from his business operating bank account into the payroll bank account, and then records the transaction into the GJ as shown on lines 7 to 9 below:

Example A3-16: Adjusting Entry Transferring Funds to Payroll Bank Account

GENERAL JOURNAL   PAGE _1

	2022 DATE		ACCOUNT	POST. REF.	DEBIT					CREDIT				
1	Jan	13	Salaries & Wages Expense	5400	2	5	8	8	52					
2			CPP Payable	2004							1	2	4	53
3			EI Payable	2005								4	0	89
4			Payroll Income Tax Payable	2006							1	7	7	70
5			Wages Payable	2003						2	2	4	5	40
6														
7	Jan	13	Payroll Bank Account	1013	2	5	8	8	52					
8			Cash Account	1011						2	5	8	8	52
9			To Transfer money to payroll for Pay Run #1											
10														

Next, he immediately posts the transaction into the corresponding ledger accounts ensuring to perform the cross-referencing between the GJ and the GL once the posting of the transaction has been fully completed.

GENERAL LEDGER SHEET   Sheet No.   2

Account: Cash Account   Account No.   1011

2022 DATE	Description	Journal Ref.	Transaction		Balance	
			Dr	Cr	Dr	Cr
Jan-13	Balance Forward				14,950.23	
Jan-13	Transfer out for Pay Run 1	GJ1		2,588.52	12,361.71	

GENERAL LEDGER SHEET   Sheet No.   1

Account: Payroll Bank Account   Account No.   1013

2022 DATE	Description	Journal Ref.	Transaction		Balance	
			Dr	Cr	Dr	Cr
Jan-13	Transfer in for Pay Run 1	GJ1	2,588.52		2,588.52	

The next day, the Pay Run date, Mr. McDuck continues with remaining tasks, including:

TASK 6. Issuing Payments to Employees

Employers may pay their employees manually by issuing pay cheques or they may directly deposit an employee's pay directly into their bank account. This Appendix provides instruction assuming that employees are paid by cheque. *This process can be adapted to electronic payments based upon instructions from your financial institution.*

Example A3-17: Updating Payroll Register and Employee Payroll Record

On January 14, 2022 Mr. McDuck issues cheque No. 321 to Jimney Cricket in the amount of $622.86 for net pay in accordance with the Payroll Register for Pay Run #1. In order to reduce the risk of error, Mr. McDuck processes the pay of each employee separately, repeating the following steps for each:

a) Prepare the cheque for the employee using the Employee Pay Statement

PAYROLL REGISTER

For Pay Period: January 1 to January 14, 2022   Date of Pay Run: January 14, 2022

Employee Name	Employee No.	Claim Code	Hours Regular	Hours Overtime (OT)	Earnings Regular	Earnings OT	Earnings Vacation Pay	Earnings (Other)	Total Gross Pay	Federal Tax	Ontario Tax	CPP	EI	(Other)	Total Deductions	Net Pay	Cheque No./ Direct Deposit No.
Jimney Cricket	E020JC	01	35.0		630.00		37.8		667.80	3.70	0.30	30.39	10.55		44.94	622.86	321
Mickey Mouse	E030MM	01	28		448.00		26.88		474.88	0.00	0.00	19.40	7.50		26.90	447.98	
Mandi Mouse	E010MAM	01	62		1,364.00		81.84		1,445.84	112.45	61.25	74.74	22.84		271.28	1,174.56	
TOTALS:					2,442.00		146.52		2,588.52	116.15	61.55	124.53	40.89		343.12	2,245.40	

b) Record the cheque number issued on the Payroll Register

Note: the cheque number (as illustrated with yellow highlighting) is entered into the Payroll Register once the cheque is written as shown above and, is also entered into Jimney's Payroll Record as shown below:

c) Record the cheque number on the Employee Payroll Record

EMPLOYEE PAYROLL RECORD - PAID MONTHLY
For January 1 to December 31, 2022

Employee Name:	Jimney Cricket
Employee Address:	
123 Meadow Lane, Forest Hills, ON	
A#A #A#	

Employee Number:	EO20JC
Employee SIN:	123 456 789
Employee Claim Code:	01

Pay Run #	Hours Regular	Hours Overtime (OT)	Earnings Regular	Earnings OT	Earnings Vacation Pay	Earnings (Other)	Total Gross Pay	Federal Tax	Ontario Tax	CPP	EI	(Other)	Total Deductions	Net Pay	Cheque No./ Direct Deposit No.
1	35.00		630.00		37.80		667.80	3.70	0.30	30.39	10.55		44.94	622.86	321.00
2															

TASK 7. Recording Payroll Disbursements

TIP: If you have a payroll bank account and are using the Cash Disbursements Journal (CDJ) for payroll purposes, include a column in your CDJ for the Bank Account - Payroll (Credit). The Miscellaneous Columns can be used for recording the Payroll Payable (Debit).

CASH DISBURSEMENTS JOURNAL   **PAGE 1**

			1010	1013	2040	2010	#			
			Cash Account	Bank Account - Payroll	HST Paid on Purchases	Accounts Payable	Account Name	Miscellaneous Description	Miscellaneous	
DATE	Cheque #	Description	(Credit)	(Credit)	(Debit)	(Debit)	(Debit)		(Debit)	Post Ref.

For the purposes of illustration, instruction on this task will use the Cash Disbursements Journal (CDJ)[12]. The employee pay cheque is the source document for the CDJ.

d) Record the payment for each employee in the CDJ as shown below:

Example A3-18: Entering Employee Pay in CDJ

CASH DISBURSEMENTS JOURNAL   **PAGE 1**

			1010	1013	2040	2010	#			
2022			Cash Account	Bank Account - Payroll	HST Paid on Purchases	Accounts Payable	Account Name	Miscellaneous Description	Miscellaneous	
DATE	Cheque #	Description	(Credit)	(Credit)	(Debit)	(Debit)	(Debit)		(Debit)	Post Ref.
Jan 14	321	Jimney Cricket		6 2 2 86				Wages Payable	6 2 2 86	

As the CDJ is processed at the end of the month, no further entries are required for Jimney Cricket at this time.

This a, b, c, d, process is repeated for each employee on the pay register for the pay run. When the cash disbursements to all three employees have been entered the CDJ would appear as follows:

CASH DISBURSEMENTS JOURNAL   **PAGE 1**

			1010	1013	2040	2010	#			
2022			Cash Account	Bank Account - Payroll	HST Paid on Purchases	Accounts Payable	Account Name	Miscellaneous Description	Miscellaneous	
DATE	Cheque #	Description	(Credit)	(Credit)	(Debit)	(Debit)	(Debit)		(Debit)	Post Ref.
Jan 14	321	Jimney Cricket		6 2 2 86				Wages Payable	6 2 2 86	
14	322	Mickey Mouse		4 4 7 98				Wages Payable	4 4 7 98	
14	323	Mandi Mouse		1 1 7 4 56				Wages Payable	1 1 7 4 56	

No further posting is required at this time as the CDJ is posted to the GL at the end of the month

---

[12] Note: if privacy is an issue, a separate Payroll Disbursements Journal (PDJ) can be maintained for issuing payroll payments. The PDJ is a special journal that is processed at month end in the same way that is done for the CDJ, and can be processed simultaneously with the CDJ based upon chronological date of transactions.

Recordkeeping: in addition to the employees' attendance records and/or time-sheets, the Payroll Register and the Employee Payroll Record, a copy (whether paper or electronic) of each Employee Pay Statement is kept on file. The original pay statement is given to the employee together with their pay cheque in a sealed envelope for privacy.

TASK 8. Calculating Employer Contributions & CRA Remittance

As previously instructed, the Employer must also make contributions to EI (see p.132) and CPP (see p.134) on behalf of each employee. A Worksheet, such as the one shown in the example below, can be created for calculating employer contributions and the CRA remittance for each pay run.

Example A3-19: Employer Contributions & CRA Remittance Worksheet

WORKSHEET

Pay Run:	1
Date:	14-Jan-22

EMPLOYER CONTRIBUTIONS

Employee	CPP Deduction	Employer Contribution (x 1)	EI Deduction	Employer Contribution (x 1.4)
Jimney Cricket	30.39	30.39	10.55	14.77
Mickey Mouse	19.40	19.40	7.50	10.50
Mandi Mouse	74.74	74.74	22.84	31.98
		124.53		57.25

Total Employer Contributions: $181.78
(Employer CPP & EI)

CRA REMITTANCE

Employees' Federal & Ontario Income Taxes:	177.70
Employees' CPP Contributions	124.53
Employees' EI Contributions	40.89
Employer CPP Contribution	124.53
Employer EI Contribution	57.25
Total to be Remitted:	$524.90

TASK 9. Transfer of Employer Contributions to Payroll Bank Account

Next, Mr. McDuck transfers funds from his business operating bank account into the payroll bank account for $181.78, being the amount of employer contributions, and then records the transaction into the GJ as shown on lines 7 to 9 below:

Example A3-20: Adjusting Entry Transferring Employer Contribution to Payroll Bank Account

GENERAL JOURNAL   **PAGE 1**

	2022 DATE		ACCOUNT	POST. REF.	DEBIT	CREDIT
1	Jan	13	Salaries & Wages Expense	5400	2 5 8 8 52	
2			CPP Payable	2004		1 2 4 53
3			EI Payable	2005		4 0 89
4			Payroll Income Tax Payable	2006		1 7 7 70
5			Wages Payable	2003		2 2 4 5 40
6						
7	Jan	13	Payroll Bank Account	1013	2 5 8 8 52	
8			Cash Account	1011		2 5 8 8 52
9			To Transfer money to payroll for Pay Run #1			
10						
11	Jan	19	Payroll Bank Account	1013	1 8 1 78	
12			Cash Account	1011		1 8 1 78
13			To Transfer money for Employer Contributions			
14			for Pay Run #1			

Upon completion of this transfer, there are now enough funds in the Payroll Bank Account to cover the remittance to the CRA for Pay Run #1. Mr. McDuck completes the required posting to the GL Accounts as follows:

GENERAL LEDGER SHEET

Sheet No.   2
Account No.   1011

Account: Cash Account

2022 DATE	Description	Journal Ref.	Transaction		Balance	
			Dr	Cr	Dr	Cr
Jan-13	Balance Forward				14,950.23	
Jan-13	Transfer out for Pay Run 1	GJ1		2,588.52	12,361.71	
Jan-19	Employer Contributions Pay Run 1	GJ1		181.78	12,179.93	

TASK 10. Submitting Information and Remitting Payment to the CRA

As previously mentioned the CRA has comprehensive rules surrounding administration of payroll. These include different rules for different employers as to when they are required to remit the payroll deductions. Filing is done using an applicable PD7A Remittance Voucher. There are different methods for filing and remitting payments to the CRA. Employers who do not submit their payroll remittances to the CRA by their applicable due date will be subject to monetary penalties, so it is important to become familiar with the requirements for your business. For comprehensive information about employer remittances, please refer to the CRA's website below and contact their helpline when necessary:

EMPLOYER'S GUIDE – PAYROLL DEDUCTIONS AND REMITTANCES
https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/t4001/employers-guide-payroll-deductions-remittances.html

CRA HELPLINE FOR PAYROLL DEDUCTIONS
1-800-959-5525

Task 11. Recording Payment to the CRA in Financial Records

When completing Task 10 above on January 19, 2022, Mr. McDuck issued cheque No. 324 to the Receiver General for Canada in the amount of $524.90 which he records in his General Journal as follows:

Example A3-21: Recording Payment to CRA

GENERAL JOURNAL   PAGE 1

	2022 DATE		ACCOUNT	POST. REF.	DEBIT					CREDIT				
1	Jan	13	Salaries & Wages Expense	5400	2	5	8	8	52					
2			CPP Payable	2004						1	2	4	53
3			EI Payable	2005							4	0	89
4			Payroll Income Tax Payable	2006						1	7	7	70
5			Wages Payable	2003						2	2	4	5	40
6														
7	Jan	13	Payroll Bank Account	1013	2	5	8	8	52					
8			Cash Account	1011						2	5	8	8	52
9			To Transfer money to payroll for Pay Run #1											
10														
11	Jan	19	Payroll Bank Account	1013		1	8	1	78					
12			Cash Account	1011							1	8	1	78
13			To Transfer money for Employer Contributions											
14			for Pay Run #1											
15														
16	Jan	19	CPP Payable	2004		1	2	4	53					
17			EI Payable	2005			4	0	89					
18			Payroll Income Tax Payable	2006		1	7	7	70					
19			CPP Expense	5500		1	2	4	53					
20			EI Expense	5510			5	7	25					
21			Payroll Bank Account	1013							5	2	4	90
22			To Record CRA Remittance Pay Run #1 Cheq 324											
23														

Then Mr. McDuck immediately posts the transaction to the General Ledger accounts, ensuring to cross reference the GJ and GL Accounts when completed:

GENERAL LEDGER SHEET

			Sheet No.	1

Account: EI Payable

			Account No.	2005

2022 DATE	Description	Journal Ref.	Transaction Dr	Transaction Cr	Balance Dr	Balance Cr
Jan-13	Pay Run #1	GJ1		40.89		40.89
Jan-19	CRA Remittance PR1 Cheq 324	GJ1	40.89			0.00

GENERAL LEDGER SHEET

			Sheet No.	1

Account: CPP Payable

			Account No.	2004

2022 DATE	Description	Journal Ref.	Transaction Dr	Transaction Cr	Balance Dr	Balance Cr
Jan-13	Pay Run #1	GJ1		124.53		124.53
Jan-19	CRA Remittance PR1 Cheque 324	GJ1	124.53			0.00

GENERAL LEDGER SHEET

			Sheet No.	1

Account: Payroll Income Tax Payable

			Account No.	2006

2022 DATE	Description	Journal Ref.	Transaction Dr	Transaction Cr	Balance Dr	Balance Cr
Jan-13	Pay Run #1	GJ1		177.70		177.70
Jan-19	CRA Remittance PR1 Cheque 324	GJ1	177.70			0.00

Observe from the three GL sheets above how the payment to the CRA clears out the GL payroll related payable accounts bringing them to a zero balance. These expenses of the company continue to be accounted for in the wages and salaries expense account as reflected in the January 13th entry.

GENERAL LEDGER SHEET

			Sheet No.	1

Account: CPP Expense

			Account No.	5500

2022 DATE	Description	Journal Ref.	Transaction Dr	Transaction Cr	Balance Dr	Balance Cr
Jan-19	CRA Employer Remit PR1 C324	GJ1	124.53		124.53	

GENERAL LEDGER SHEET

Account: EI Expense

Sheet No.	1
Account No.	5510

2022 DATE	Description	Journal Ref.	Transaction Dr	Transaction Cr	Balance Dr	Balance Cr
Jan-19	CRA Employer Remit PR1 C324	GJ1	57.25		57.25	

Observe from the above two GL Sheets how the employer's contributions for pay run 1 are captured in the books. Now that these expenses are recorded, this concludes the capturing of all payroll expenses into the financial books.

GENERAL LEDGER SHEET

Account: Payroll Bank Account

Sheet No.	1
Account No.	1013

2022 DATE	Description	Journal Ref.	Transaction Dr	Transaction Cr	Balance Dr	Balance Cr
Jan-13	Transfer in for Pay Run 1	GJ1	2,588.52		2,588.52	
Jan-19	Employer Contributions Pay Run 1	GJ1	181.78		2,770.30	
Jan-19	Payment to CRA Cheque #324	GJ1		524.90	2,245.40	

And finally observe from the GL Sheet for the Payroll Bank Account how the payment to the CRA has reduced the balance of monies showing available in the bank account to $2,245.40. In actual fact, there are no funds available in the Payroll Bank Account at this time. When the Cash Disbursements Journal is posted at the end of the month, the total that is posted from the Payroll Bank Account column will Credit (reduce) the account balance by the $2,245.40 wages that were paid out to employees.

If you prefer to have the Payroll Bank Account ledger brought up-to-date at the time employees are paid, instead of journalizing the payments to employees using the Cash Disbursements Journal, use the General Journal. Per the requirement to update the General Journal daily, the transactions of payment to the employees would be recorded into the General Ledger Payroll Bank Account on the date of pay run (in the case of our example on January 14), thereby reducing the balance of the account when payment is made instead of at the end of the month.

Bibliography

Barker, B.C.W. (2001). Basic Bookkeeping (4th Ed.). Scarborough: Nelson Thomson Learning, a division of Thomson Canada Limited.

Boyd, K.W. et. al. (2018). Accounting All-In-One for dummies. (2nd Ed.). New Jersey: John Wiley & Sons, Inc.

Epstein L. & Laurin C. (2013). Bookkeeping for Dummies. (2nd Ed.) Mississauga: John Wiley & Sons Canada, Ltd.

Hart-Fanta, L. (2011). Accounting DeMystified. (2nd Ed.) USA: The McGraw-Hill Companies, Inc.

Wegren-Debre, W. (2020). Bookkeeping in Canada: A Comprehensive Learning Guide to the Fundamental. North Haven, CT: Marge Wegren-Debre.

Canada Revenue Agency	https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/payroll.html
Employment Ontario	https://www.ontario.ca/page/employment-ontario
Government of Ontario – Employment Standards	https://www.ontario.ca/document/your-guide-employment-standards-act-0
Ontario Labour Relations Board	http://www.olrb.gov.on.ca/
Service Canada	https://www.canada.ca/en/employment-social-development/corporate/portfolio/service-canada.html

If you have constructive feedback on this guide or suggestions for topics of future booklets please do not hesitate to share them with the good people at the GEDC who are diligently working to make resources available to support the development of local business.