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Computerized Systems, Cash, Payroll and Sales Tax

LEARNING OBJECTIVES

- Describe appropriate internal control procedures
- Prepare a bank reconciliation
- Calculate employer and employee payroll taxes
- Record journal entries for payroll
- Calculate sales tax and record the necessary journal entries
- Describe a computerized accounting system

Internal Controls for Cash

- **Maintaining physical safeguards:** Includes using secure cash registers and lockboxes, making frequent bank deposits
- **Segregation of duties:** Different employees handle cash and complete cash-related recordkeeping
- **Transaction authorization:** Transactions exceeding thresholds are approved by a manager or owner
- **Record retention:** Cash-related supporting materials maintained for seven years

Petty Cash

- Small amount of cash, monitored by an administrative assistant, to be used for incidental purchases
- Established by reducing Cash and increasing the Petty Cash asset account

5/11	Petty Cash	500	
	Cash		500
	<i>Establishment of a petty cash fund</i>		

Petty Cash Replenishment

- Replenished by placing cash in a lockbox and recording a journal entry to increase expenses incurred
- Journal entry increases expense accounts and decreases Cash
 - Does *not* impact Petty Cash

18/11	Postage Expense	220	
	Supplies Expense	145	
	Miscellaneous Expense	85	
	Cash		450
	<i>Replenishment of the petty cash fund</i>		

Increase Petty Cash Fund

The same journal entry used to establish the fund is used to increase it.

20/1	Petty Cash	100	
	Cash		100
	<i>Increase of the petty cash fund</i>		

Bank Reconciliation

Displays all items that account for the difference between the bank balance and the general ledger cash balance

Azzara Theme Park Guides Bank Reconciliation January 31, 2027									
Bank Statement Balance				\$	26,500	Book Balance			
Add:						\$ 27,200			
Deposits in Transit				\$	1,250	Note Receivable			
						\$ 400			
				\$	27,750	Error Recording Cheque #2174			
						\$ 220			
						\$ 620			
						\$ 27,820			
Deduct:						Deduct:			
Outstanding Cheques: #2156				\$	650	NSF Cheque:			
#2162				\$	1,225	\$ 1,800			
				\$	1,875	Bank Charges			
						\$ 145			
Adjusted Bank Balance				\$	25,875	Adjusted Book Balance			
						\$ 25,875			

Bank Reconciliation: Reconciling Items

- **Deposits in transit:** Deposits made too late in the month to appear on the bank statement
- **Outstanding cheques:** Cheques not yet cashed
- **Notes receivable:** Amounts paid directly to a company's bank account
- **NSF cheques:** Cheques written for amounts that exceed what is available in the account; “bounced cheques”
- **Bank charges:** Levied by a bank for various services
- **Errors:** Made by the bank or the company

Bank Reconciliation: Journal Entries

- Items on the bank side of a reconciliation have been recorded by the company.
 - No additional journal entries are needed.
- Items on the company side have not been recorded by the company.
 - Journal entries needed:
 - Collection of notes receivable by bank
 - Bank charges
 - NSF cheques
 - Company errors

Employee Withholdings

Amounts withheld from employee earnings include:

- Federal income tax
- Provincial (or territorial) income tax
 - Total claim amount changes yearly per the Basic Personal Amount
- Voluntary deductions (like retirement contributions)
- CPP deductions (pension plan)
- EI deductions (employment insurance)

Employer Payroll Taxes

Taxes paid by the employer include:

- CPP contributions (employee and employer)
- EI contributions (employee and employer)
- Employee's withholding taxes

Payroll Expense account:

- Debited in the journal entry
- Standard expense account for employer payroll taxes
- Multiple payroll expense accounts keep employer contributions and employee withholdings separate

TD1 Personal Tax Credits Returns

- Employee completes two upon hiring
- One form is for federal deductions, the other is for provincial/territorial deductions
- Provide the information necessary to determine withholding amounts

T4 Statement of Remuneration Paid

- A T4 slip displays annual earnings and withholding information.
 - It is provided to the employee by the employer.
- A T4 Summary outlines withholdings for all employees and all employer contributions.
 - It is provided to the CRA by the employer.
- All of these must be submitted by February 28 of the subsequent year for the preceding calendar year.

T4A Statement of Pension, Retirement, Annuity, and Other Income

- If a business pays more than \$500 to a contractor, it must complete a T4A for that contractor.
- The T4A Summary summarizes the T4A forms.
 - It is due by February 28 of the subsequent year for the preceding calendar year.
- The employer makes no withholdings or contributions for contractors.

Sales Tax Calculations and Journal Entries

- Participating provinces/territories use HST, charging one rate on taxable goods and services.
- Non-participating provinces/territories generally use GST.
- Businesses register for a GST/HST account.
 - This is optional until certain conditions are met, then it's required.
- Registering has benefits.
 - A business can claim taxable sales as input tax credits (reduces GST/HST due at period end).

How Sales Tax Is Calculated

The taxable nature of a supply falls into one of these three categories:

- Taxable – most businesses sell taxable supplies
- Exempt – supplies are not taxable
- Zero-rated – supplies are taxed at a GST/HST rate of 0%
 - Not the same as being exempt!

Type of Supplies

- Place of supply is about where a product/service is being sold to.
- To apply place of supply rules, consider the type of supply:
 - Tangible personal property
 - Intangible personal property
 - Services
 - Real property

Sales Tax Remittance Calculations

- Sales tax is usually filed at end of a period (monthly, quarterly, annually).
- The regular method uses GST/HST calculated on all taxable supplies.
- Business owners determine if they must register to collect and remit PST, RST or QST.

Computerized Accounting Systems

The benefits of using computerized accounting systems:

- Automated work
- Minimized errors
- Improved efficiency
- Improved accuracy
- Backup capabilities
- Decreased overall cost