**Unit 4: Why Do You Do Accounting Anyway?**

**Activity 1: Accounting for the Government**

1. What is the amount of income tax you pay dependent on?
2. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ your income, the \_\_\_\_\_\_\_\_\_\_\_\_ taxes you pay. Income taxes are calculated as a percentage of your \_\_\_\_\_\_\_\_ income.
3. Paying taxes is a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of \_\_\_\_\_\_\_\_\_\_ Canadians.
4. Business \_\_\_\_\_\_\_\_\_\_\_\_\_\_ have another \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ with regard to taxes for the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. They must collect \_\_\_\_\_\_\_\_\_ taxes on behalf of the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_; and then submit the funds they collect in the form of taxes to the government.
5. What are the two taxes listed in the activity that are added to goods and services?
6. What have those two taxes been replaced by?
7. What is PST? What is the rate of PST? What is PST also called?
8. What services and benefits are made possible by through the charging of taxes?
9. What was Ontario’s revenue estimated at for 2008-2009? What percentage comes from income taxes?
10. What are the three taxes that fall within this category?

#### Check Your Understanding

1. Why does the government charge sales taxes on goods and services purchased in Canada?
2. What is the percentage rate for PST and for GST?
3. What are funds used for that are generated by sales tax?
4. Why do you have to pay sales tax as a customer? Why do business owners have to collect sales tax?
5. Whose responsibility is it to collect sales taxes?
6. In order to collect sales taxes, the business must add how many accounts to the ledger? What are they?
7. Why are these accounts “payable” accounts?

#### Example

A client paid $50 plus $4 PST and $2.50 GST for a total of $56.50 cash for a snowmobile repair.

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| |  |  | | --- | --- | | **Cash** | | | $\_\_\_\_\_\_\_\_\_\_\_\_ |  | | |  |  | | --- | --- | | **Revenue** | | |  | $\_\_\_\_\_\_\_ | |
| |  |  | | --- | --- | | **PST Payable** | | |  | $4 | |  |  | | |  |  | | --- | --- | | **GST Payable** | | |  | $2.50 | |  |  | |

1. What do you notice about the debits and credits?
2. By accounting for the \_\_\_\_\_\_\_\_\_\_\_\_ of PST and GST \_\_\_\_\_\_\_\_\_\_\_\_\_ at the time of the sale, a business owner is creating a \_\_\_\_\_\_\_\_\_\_\_\_\_ total of what they owe the \_\_\_\_\_\_\_\_\_\_\_\_\_. To determine the amount owing to the government, all the business owner \_\_\_\_\_\_\_\_\_ to do is find the \_\_\_\_\_\_\_\_\_\_ in the \_\_\_\_\_\_ Payable and \_\_\_\_\_\_\_\_ Payable accounts (now replaced by \_\_\_\_\_\_\_\_\_ payable).

#### Example

A business owner can determine how much they owe the government by determining the balance in the PST and GST Payable accounts.

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| |  |  | | --- | --- | | **PST Payable** | | |  | $2.65 | |  | 3.58 | |  | 4.56 | |  | 10.87 | |  | 6.58 | |  |  | |  | $\_\_\_\_\_\_\_\_\_ | | |  |  | | --- | --- | | **GST Payable** | | |  | $1.68 | |  | 2.78 | |  | 3.75 | |  | 8.24 | |  | 5.98 | |  |  | |  | $    \_\_\_\_\_\_\_ | |

This business owes the government $\_\_\_\_\_\_\_\_\_\_+ $\_\_\_\_\_\_\_\_\_\_\_ = $\_\_\_\_\_\_\_\_\_ in sales taxes.

#### Check Your Understanding

1. Record the following transactions for Extreme Repair in the T-account ledger provided. Be sure to account for sales taxes on all sales. Find account balances after posting the transactions.

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| --- | --- | --- |
| **Transaction** | **Details** | |
| 1 | Client purchased an ATV accessory for $56 plus 13% HST for a total of $63.28 cash. | |
| 2 | A customer had repairs of $450, plus HST, completed on his/her personal watercraft. The customer agreed to pay in 30 days. | |
| 3 | A client had repairs of $255, plus HST completed on his/her dirt bike. They paid cash. | |
| 4 | A motocross racing client received pit crew services at the weekend race. He agreed to pay $621.50 including $71.50 of HST in 30 days | |
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1. What does Rob Telfur, the owner, owe the government in sales tax?