

CONCEPT: SALES TAX PAYABLE

- Companies must often collect a **sales tax** based on a percentage of revenue.
 - Sales taxes are paid by customers, but are not _____. They are collected and remitted to the government

The state of Oklabraska imposes an 8% sales tax on all sales. During the month of September, Oklabraska Riding Company made sales of \$240,000.

Journal Entry:

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>
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ORC remitted the sales taxes collected to the government at the end of the month.

Journal Entry:

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>
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- A company may also record total cash receipts and back into the amount of revenue using the following formula:

$$\text{Sales Revenue} = \frac{\text{Total Cash Receipts}}{1 + \text{Sales Tax}}$$

The state of Coloranifornia imposes a 5% sales tax on all sales. During the month of September, total cash receipts at Coloranifornia Ski Shop were \$210,000.

Journal Entry:

PRACTICE: Blue Skies Supplies does not keep separate records of revenues and sales taxes at the time of sale. The register totals for October 21 are \$20,776. All sales are subject to a 6% sales tax. If all cash receipts were originally included in Sales Revenue, the journal entry to adjust for sales taxes payable would include:

- a) A debit to Sales Taxes Payable for \$1,176
- b) A debit to Sales Tax Expense for \$1,246
- c) A credit to Sales Taxes Payable for \$1,176
- d) A credit to Sales Taxes Payable for \$1,246

PRACTICE: Crystal Company does not segregate sales and sales taxes in its register. The register total for May 5 is \$27,560, which includes a 6% sales tax. Prepare the journal entry to record the sales and related taxes.

PRACTICE: ABC Company sold subscriptions to customers based on the following timeline:

September 1	Sold one-year subscriptions, collecting cash of \$3,600, plus sales taxes of 10%.
October 31	Paid the sales taxes to the state taxing authority.
December 31	Recorded necessary year-end adjusting entries

Prepare journal entries for each of the events provided.