

Accounting for the acquisition of goods and services

Example: bought motor vehicle on credit for \$27,500 (GST inclusive) from Moderate Motors

Step 1: Determine the accounts involved

- Motor Vehicle (A)
- GST Credits Received (-L)
- Accounts Payable – Moderate Motors (L)

Step 2: Calculate the GST portion (and therefore calculate the GST inclusive / exclusive amounts)

- $\$27,500 / 11 = \$2,500$ (GST amount)
- \$27,500 GST inclusive amount
- \$25,000 GST exclusive amount ($\$27,500 / 1.1$)

Step 3: Determine which amount applies to which account

- (Dr) Motor Vehicle \$25,000 (GST exclusive amount) – value of the car is exclusive of GST
- (Dr) GST Credits Received \$2,500 (GST amount)
- (Cr) Accounts Payable – Moderate Motors \$27,500 (GST inclusive amount)

Activity

Instructions:

- Identify the accounts involved
- Decide whether you need to Dr or Cr the account
- Calculate the amount involved (round to 2 decimal places)

Transaction	Accounts involved	Dr or Cr	Amount
Bought motor vehicle on credit for \$27,500 (GST inclusive) from Moderate Motors	Motor vehicle	Dr	\$25,000
	GST Credits Received	Dr	\$2,500
	Accounts Payable – Moderate Motors	Cr	\$27,500
Purchase inventories on credit from M.Moat for \$484 (GST inclusive)	Inventories	Dr	440
	GST Credits Received	Dr	44
	Acc Payable - M.Moat	Cr	484
Paid advertising for cash \$297 (GST exclusive)	Advertising	Dr	297
	GST Credits Received	Dr	29.70
	Cash at Bank	Cr	326.70
Paid in cash an electricity account for \$814 (GST inclusive)	Electricity	Dr	740
	GST Credits Received	Dr	74
	Cash at Bank	Cr	814
Purchased furniture from Harvey Norman \$2300 (GST exclusive)	Furniture	Dr	2300
	GST Credits Received	Dr	230
	Acc Payable - Harvey Norman	Cr	2530
Received telephone bill from Telstra for \$655 (GST exclusive)	Telephone	Dr	655
	GST Credits Received	Dr	65.50
	Telstra - Acc Payable	Cr	720.50
Bought consumable supplies for \$874 cash (GST inclusive amount)	Consumable Supplies	Dr	794.55
	GST Credits Received	Dr	79.45
	Cash at Bank	Cr	874
Bought computer system for \$26,800 (GST inclusive). Paid a deposit of \$5,000 and the remainder on credit with Hobart Computer Shop	Computer System		24363.64
	GST Credits Received		2436.36
	Cash at Bank		5000
	Acc Payable - Hobart Computer Shop		21800

Do your journals balance???