Accounting Units 1 & 2

Chapter 7 Cash accounting for a service business

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Contents

Chapter 7 Cash accounting for a service business — 7A Service businesses, cash and single-entry accounting

Theory

A **service business** earns its revenue by providing a **service** to its customers rather than by selling a physical product. A hairdresser sells haircuts, a plumber sells labour and expertise, a bookkeeper sells the preparation of financial records — none of them buys goods to resell. Because a service business does not buy and sell **inventory** (stock held for resale), it keeps **no Inventory account and no inventory cards**: the units it sells are hours of work and skill, which cannot be counted on a shelf. This is the single most important difference between a service business and a **trading business**, which buys goods and resells them at a profit. Throughout Unit 1 the business we record is a **service business owned by a sole proprietor** (one owner).

Cash and credit transactions. Every transaction is settled in one of two ways:

- A **cash transaction** is settled **immediately** — the money changes hands at the moment the service is provided or the expense is incurred. "Cash" here means any immediate settlement: notes and coins, an EFT (electronic funds transfer), a debit-card tap or a direct deposit that clears at once.
- A **credit transaction** is settled **later** — the service is provided (or the good received) now, but the money is paid or received at an agreed **future date**. A credit transaction creates an **account receivable** (a customer who owes the business) or an **account payable** (a supplier the business owes). Credit transactions are recorded in Chapter 9; this chapter records **cash only**.

The distinction matters because only cash transactions change the **Bank** balance *now*. A service business must be able to see, at any time, how much cash it has received and paid — so its first job is to record cash accurately.

Single-entry cash accounting and its limitations. The simplest way to keep records is **single-entry cash accounting**: the business lists its cash **receipts** (money in) and cash **payments** (money out) in a cash book and works out the change in the Bank balance. Each transaction is recorded **once**, from the point of view of the Bank account alone. Single-entry recording is cheap and easy, and it suits a very small operator who only needs to know the cash position — but it has real **limitations**:

- It records only the **cash side** of each transaction, so it does **not** capture the second, or **twofold**, effect (what the business now owns or owes as a result). It cannot readily show **assets** and **liabilities**, so a full **Balance Sheet** is hard to produce.
- It has **no self-balancing check**. Because nothing is recorded twice, an error or an omitted receipt can go undetected — there is no built-in test that the records are complete.
- It does not distinguish **cash from profit**. A large cash balance is not the same as a large profit, and single-entry records make that difference easy to miss.

Double-entry accounting overcomes these limitations by recording **both** effects of every transaction — an equal **debit** and **credit** — so the records self-balance and a complete set of reports can be prepared. Double-entry (the General Ledger) is the method used in Units 3 & 4 and is previewed in Chapter 19. In Units 1 & 2 the practical recording method sits between the two: the business uses **special journals**, which record cash once but **analyse** each receipt and payment into columns, capturing enough of the other side to prepare the reports.

The two cash journals — the books of first entry. A service business records its cash in two **special journals**, so called because each is dedicated to one *kind* of transaction. They are the **books of first entry** — the very first place a transaction is written down, before any figure is summarised into a report:

- The **Cash Receipts Journal (CRJ)** records **every cash receipt** — all money coming *in* (fees received, capital contributed by the owner, interest received, and so on).
- The **Cash Payments Journal (CPJ)** records **every cash payment** — all money going *out* (wages, advertising, rent, drawings taken by the owner, and so on).

Each journal has a **Bank** column (the total cash of each transaction) plus **analysis columns** that sort the amount into the account(s) it affects. In a service business the CRJ typically has a **Fees** column for service revenue, a **GST** column, and a **Sundries** column for anything that has no column of its own; the CPJ typically has a **Wages** column, a **GST** column and a **Sundries** column. For every row the analysis columns **cross-add** back to the Bank figure, and at the end of the period each column is **totalled** — the totals are what later flow into the reports. (Full recording in the CRJ and CPJ is the work of sections 7B and 7C; here we introduce their layout at overview level.)

GST basics. Most services carry the **Goods and Services Tax (GST)** — a 10% tax the business adds to its fees, collects from the customer, and later forwards to the Australian Taxation Office. Because the business is only a collector, GST it collects is a **liability** recorded in the **GST Clearing** account, and GST it pays on its own expenses **reduces** that liability. When an amount is quoted **GST-inclusive** (it already contains the tax), the GST is exactly **one-eleventh** of it:

$$\text{GST} = \frac{1}{11} \times (\text{GST-inclusive amount})$$

This is exact because a GST-inclusive price is the base price (10 parts) plus GST (1 part) = 11 parts, so GST is 1 part in 11. For example, a fee received of \$1 100 GST-inclusive contains GST of \$1 100 ÷ 11 = **\$100**, leaving fees revenue of **\$1 000**. The GST-exclusive amount is always the inclusive amount **minus** the GST.

Worked model. *Brightline Bookkeeping* (owner N Poulos) is a service business. In its first week it received \$1 320 cash in fees (GST-inclusive, **Rec. 41**) and a \$5 000 cash capital contribution from the owner (**Rec. 42**); it paid \$1 500 wages (**EFT 2101**) and \$264 advertising (GST-inclusive, **EFT 2102**). The fee of \$1 320 splits into fees \$1 200 and GST \$120 (1 320 ÷ 11); the advertising of \$264 splits into an expense of \$240 and GST \$24. The capital contribution and the wages carry **no GST**. Recorded at overview level:

Brightline Bookkeeping — Cash Receipts Journal

Date 2026	Details	Rec. No.	Bank \$	Fees \$	GST \$	Sundries \$
3 May	Fees	41	1 320	1 200	120	
6 May	Capital — N Poulos	42	5 000			5 000
Total			**6 320**	**1 200**	**120**	**5 000**

Brightline Bookkeeping — Cash Payments Journal

Date 2026	Details	Chq/EFT No.	Bank \$	Wages \$	GST \$	Sundries \$
4 May	Wages	EFT 2101	1 500	1 500		
5 May	Advertising	EFT 2102	264		24	240
Total			**1 764**	**1 500**	**24**	**240**

In each journal every row cross-adds to its Bank figure (1 200 + 120 = 1 320; 240 + 24 = 264) and the Bank total equals the sum of the analysis-column totals (6 320 = 1 200 + 120 + 5 000; 1 764 = 1 500 + 24 + 240) — the built-in check that the recording is complete.

Ethical considerations. Cash is the asset most easily concealed, so honest recording begins with cash. Under the **faithful representation** characteristic every cash receipt and payment must be recorded **completely** and **without bias** — the owner must not leave cash fees out of the Cash Receipts Journal to understate revenue (and so reduce tax), nor invent or inflate payments in the Cash Payments Journal. Deliberately omitting cash receipts is not only unethical, it is illegal tax evasion, and it misleads every stakeholder who relies on the reports. Honesty is also required by the **accounting entity** assumption, which treats the business as **separate from its owner**: the owner's private cash must be kept apart from the business's cash. Paying personal expenses from the business Bank, or banking private money as though it were business fees, breaches the entity assumption and distorts the reported profit and financial position. Keeping the two sets of cash separate — and recording every business receipt and payment faithfully — is the foundation of trustworthy accounting information.

Worked examples (scaffolded)

Example 1 — recording cash receipts in the Cash Receipts Journal (overview)

Summit Signwriting (owner D Reyes) is a service business. During the first week of June 2026 it: on 2 June received $1 540 cash in fees, GST-inclusive (**Rec. 61**); on 4 June received a $3 000 cash capital contribution from the owner (**Rec. 62**); and on 5 June received $660 cash in fees, GST-inclusive (**Rec. 63**). Record these receipts in the Cash Receipts Journal and total it.

Working	Comment
The Bank column takes the **full cash amount** of each receipt: $1 540, $3 000, $660.	Bank = the total money received, GST-inclusive where GST applies.
Fee of $1 540: GST = 1 540 ÷ 11 = $140; Fees = 1 540 − 140 = **$1 400**.	Fees are GST-inclusive, so split out GST (1/11) and put the rest in Fees.
Fee of $660: GST = 660 ÷ 11 = $60; Fees = **$600**.	Same split for every taxable fee received.
Capital contribution $3 000: **no GST** — the owner investing cash is not a sale, so the whole $3 000 goes to **Sundries** (Capital).	Sundries holds any receipt with no column of its own; a capital contribution carries no GST.
Total each column, then check the Bank total equals Fees + GST + Sundries.	Fees 2 000 + GST 200 + Sundries 3 000 = 5 200 = Bank total — the cross-check.

Summit Signwriting — Cash Receipts Journal

Date 2026	Details	Rec. No.	Bank $	Fees $	GST $	Sundries $
2 Jun	Fees	61	1 540	1 400	140	
4 Jun	Capital — D Reyes	62	3 000			3 000
5 Jun	Fees	63	660	600	60	
Total			**5 200**	**2 000**	**200**	**3 000**

Example 2 — recording cash payments in the Cash Payments Journal (overview)

In the same week *Summit Signwriting* also: on 3 June paid $1 800 wages (**EFT 3301**); on 4 June paid $385 advertising, GST-inclusive (**EFT 3302**); and on 6 June the owner withdrew $500 cash for private use — drawings (**EFT 3303**). Record these payments in the Cash Payments Journal and total it.

Working	Comment
The Bank column takes the **full cash paid**: $1 800, $385, $500.	Bank = the total money paid, GST-inclusive where GST applies.
Wages $1 800: **no GST** on wages, so the whole amount goes to the **Wages** column.	Wages are outside the GST system — no GST is split out.
Advertising $385: GST = 385 ÷ 11 = $35; expense = $350 to **Sundries** (Advertising).	Advertising carries GST; the GST the business pays reduces the GST Clearing liability.
Drawings $500: **no GST** — the owner taking cash is not a purchase, so $500 goes to **Sundries** (Drawings).	Drawings and capital both sit in Sundries and carry no GST.
Total each column and check Bank = Wages + GST + Sundries.	Wages 1 800 + GST 35 + Sundries 850 = 2 685 = Bank total.

Summit Signwriting — Cash Payments Journal

Date 2026	Details	Chq/EFT No.	Bank $	Wages $	GST $	Sundries $
3 Jun	Wages	EFT 3301	1 800	1 800		
4 Jun	Advertising	EFT 3302	385		35	350
6 Jun	Drawings — D Reyes	EFT 3303	500			500
Total			**2 685**	**1 800**	**35**	**850**

Worked examples (unscaffolded)

Example 3 — classifying a business and its transactions

Peak Photography is a portrait studio owned by S Ellis. On 12 July it completed a portrait session for a client and received $99 immediately by EFT (**Rec. 88**); on 13 July it completed a second portrait session and issued an invoice for $121 due in 30 days. Classify the business, classify each transaction, name the journal that records the 12 July receipt, and calculate the GST included in the $99.

Peak Photography sells a service (portrait sessions) and holds no inventory, so it is a **service business**. The 12 July receipt is settled immediately, so it is a **cash** transaction; the 13 July invoice is settled 30 days later, so it is a **credit** transaction (it creates an account receivable and is not recorded in a cash journal). The 12 July cash receipt is recorded in the **Cash Receipts Journal**. Its GST = $99 ÷ 11 = $9, leaving fees of $90.

∴ Peak Photography is a service business; the 12 July $99 is a cash receipt (CRJ) containing $9 GST, and the 13 July $121 is a credit transaction recorded later.

Example 4 — the net effect of cash transactions on GST Clearing

Harbourview Consulting (a service business) received $3 630 cash in consulting fees, GST-inclusive, and paid $550 cash, GST-inclusive, for office cleaning. Determine the effect of these two cash transactions on the **GST Clearing** account.

On the fees received, GST **collected** = $3 630 ÷ 11 = $330 (fees revenue $3 300). On the cleaning paid, GST **paid** = $550 ÷ 11 = $50 (cleaning expense $500). GST collected on fees **increases** the GST Clearing liability; GST paid on the cleaning **reduces** it. The net movement is $330 − $50 = $280.

∴ these two cash transactions increase the GST Clearing liability by **$280** — the net amount the business owes the ATO on them.

Practice questions — scaffolded

Question 1

a. Classify each of the following as a **service business** or a **trading business**: (i) a hair salon;
(ii) a shoe shop; (iii) a plumbing business; (iv) a supermarket; (v) a dog-grooming business.
b. State the key difference between what a service business sells and what a trading business sells.
c. Explain, in one sentence, why a service business does not keep an Inventory account or inventory cards.

Question 2

Marlow Mowing is a lawn-mowing service owned by a sole proprietor.

a. For each transaction, state whether it is a **cash** or a **credit** transaction: (i) mowed a lawn and received $66 immediately by EFT; (ii) mowed a lawn and sent an invoice for $88 due in 14 days; (iii) paid the monthly fuel account by EFT on the day the account arrived.
b. Calculate the GST included in the $66 cash fee in (i).
c. Name the journal that records the $66 cash receipt.

Question 3

a. Define **single-entry cash accounting** in one sentence.
b. State **two** limitations of single-entry cash accounting compared with double-entry accounting.
c. Name the recording method, used in Units 3 & 4, that overcomes those limitations.

Question 4

Coastal Cleaning is a service business. For each transaction, name the journal that records it (and, where asked, the analysis column).

a. Name the journal that records a $330 cash receipt for a cleaning job (**Rec. 12**).

b. Name the journal that records a $1 200 wages payment made by EFT.

c. Name the journal **and** the analysis column that record the owner's $2 000 cash capital contribution (**Rec. 13**).

Question 5

a. Calculate the GST included in a GST-inclusive fee of $495.

b. Calculate the GST-exclusive fee for that same $495 receipt.

c. A service business paid $220 (GST-inclusive) for advertising. Calculate the GST it can claim (that reduces its GST Clearing liability).

Question 6

Riverbend Tutoring is a service business owned by a sole proprietor.

a. Explain what the **accounting entity** assumption requires of the owner in relation to private and business cash.

b. The owner is tempted to leave $500 of cash fees out of the Cash Receipts Journal. Identify the qualitative characteristic that this would breach.

c. Discuss **one** financial implication, for the reports and for the owner, of not recording that $500 cash fee.

Practice questions — unscaffolded

Question 7

Distinguish between a service business and a trading business, and give one original example of each.

Question 8

Explain the difference between a **cash** transaction and a **credit** transaction, illustrating each with a different example drawn from a service business.

Question 9

Explain what is meant by **single-entry cash accounting**, and outline **two** reasons why it is unsuitable for preparing a complete set of classified accounting reports.

Question 10

Distinguish between the **Cash Receipts Journal** and the **Cash Payments Journal**, explaining what each records and why both are described as **books of first entry**.

Question 11

Fernvale Gardening is a service business. For **each** of the following transactions, state which journal — the Cash Receipts Journal (CRJ) or the Cash Payments Journal (CPJ) — records it.

a. Received $275 cash for a garden job (**Rec. 30**).
b. Paid $1 100 wages by EFT.
c. The owner contributed $4 000 cash to the business (**Rec. 31**).
d. The owner withdrew $600 cash for private use (**EFT 5502**).
e. Paid $330 (GST-inclusive) for advertising by EFT.
f. Received $150 interest on the business bank account (**Rec. 32**).

Question 12

For each of the following **GST-inclusive** amounts, calculate the GST it contains: (a) $77; (b) $935; (c) $1 210; (d) $4 620.

Question 13

A service business received $2 090 cash in fees (GST-inclusive). Calculate (i) the GST collected and (ii) the fees revenue, and state the account that is credited with the GST.

Question 14

Larkspur Design omitted a $660 cash fee receipt (GST-inclusive) from its Cash Receipts Journal for the month. Model the effect of the omission on the **Bank** column total of the CRJ, and identify **one** accounting report that would consequently be affected.

Question 15

Willow Web Design (owner P Nair) is a service business. In the week ended 14 August 2026 it: on 10 August received $2 200 cash in fees, GST-inclusive (**Rec. 20**); on 12 August received a $6 000 cash capital contribution from the owner (**Rec. 21**); and on 14 August received $990 cash in fees, GST-inclusive (**Rec. 22**). Prepare the Cash Receipts Journal (overview) and total it.

Question 16

In the same week *Willow Web Design* also: on 11 August paid $2 400 wages (**EFT 4401**); on 13 August paid $154 (GST-inclusive) for internet and phone (**EFT 4402**); and on 14 August the owner withdrew $800 cash for private use — drawings (**EFT 4403**). Prepare the Cash Payments Journal (overview) and total it.

Question 17

The owner of a small service business banks most of the week's cash fees but keeps $200 of them "off the books", and occasionally pays for the family's groceries straight from the business EFT account. **Discuss** these practices with reference to a relevant qualitative characteristic and one financial implication for the business's reports.

Question 18

Explain why the **accounting entity** assumption requires the owner's private cash to be kept separate from the business's cash, and give **one** example of a breach and its effect on the reported profit or financial position.

Answers

1.
   a.
      (i) service (ii) trading (iii) service (iv) trading (v) service b. A service business sells a service; a trading business sells goods (inventory) c. It holds no goods for resale
2.
   a.
      (i) cash (ii) credit (iii) cash b. $6 c. Cash Receipts Journal
3.
   a. See solutions b. See solutions (any two) c. Double-entry accounting
4.
   a. Cash Receipts Journal b. Cash Payments Journal c. Cash Receipts Journal; Sundries column
5.
   a. $45 b. $450 c. $20
6. a–c. See solutions
7. See solutions
8. See solutions
9. See solutions
10. See solutions
11.
    a. CRJ b. CPJ c. CRJ d. CPJ e. CPJ f. CRJ
12.
    a. $7 b. $85 c. $110 d. $420
13. GST $190; fees $1 900; GST Clearing
14. Bank total understated by $660; Cash Flow Statement (and Income Statement)
15. Bank total $9 190 (Fees $2 900, GST $290, Sundries $6 000)
16. Bank total $3 354 (Wages $2 400, GST $14, Sundries $940)
17. See solutions
18. See solutions

Fully-worked solutions

Question 1

a.
   (i) hair salon — **service**; (ii) shoe shop — **trading**; (iii) plumbing business — **service**;

(iv) supermarket — **trading**; (v) dog-grooming business — **service**.

b. A **service business** earns revenue by providing a **service** (its skill, labour or expertise); a **trading business** earns revenue by buying **goods** and reselling them (inventory) at a profit.

c. A service business holds **no goods for resale**, so there is nothing to count, value or track — it needs neither an Inventory account nor inventory cards.

Question 2

a.
   (i) **cash** (settled immediately by EFT); (ii) **credit** (invoiced, paid 14 days later — an account receivable); (iii) **cash** (paid on the day, settled immediately).

b. GST = $66 ÷ 11 = **$6** (leaving fees of $60).

c. The **Cash Receipts Journal**.

Question 3

a. **Single-entry cash accounting** records only the **cash side** of each transaction — a list of cash receipts and cash payments — with each transaction entered **once**, from the point of view of the Bank.

b. Any **two** of: it does not record the **twofold effect**, so assets and liabilities are not captured and a full Balance Sheet is hard to prepare; it has **no self-balancing check**, so errors and omissions go undetected; it does not distinguish **cash from profit**.

c. **Double-entry accounting** (recording an equal debit and credit for every transaction in the General Ledger).

Question 4

a. The **Cash Receipts Journal** (a cash receipt for a service — money in).

b. The **Cash Payments Journal** (wages paid — money out).

c. The **Cash Receipts Journal**; recorded in the **Sundries** column (a capital contribution has no column of its own and carries no GST).

Question 5

a. GST = $495 ÷ 11 = **$45**.

b. GST-exclusive fee = $495 − $45 = **$450**.

c. GST claimable = $220 ÷ 11 = **$20** (this GST paid reduces the GST Clearing liability).

Question 6

a. The **accounting entity** assumption treats the business as **separate from its owner**, so the owner must keep **private cash separate from business cash** — private money must not be banked as business fees, and business cash must not be used to pay the owner's personal expenses (any cash the owner does take is recorded as **drawings**).

b. **Faithful representation** — the records would no longer be **complete** and free from bias.

c. Leaving the $500 out understates the CRJ Bank total and the **fees revenue**, so the Income Statement reports **less profit** than was truly earned and the reports mislead any stakeholder (a lender, a prospective buyer) who relies on them; it also understates the GST owed to the ATO, which is **tax evasion** — illegal, and exposing the owner to penalties. (Honest recording protects both the usefulness of the reports and the owner.)

Question 7

A **service business** provides a **service** to its customers and earns fees for its skill, time or expertise; it holds no inventory (for example, a *mobile dog-washing business*). A **trading business** buys **goods** and resells them at a higher price, earning a profit on inventory (for example, a *surf shop*). The defining difference is **what is sold** — a service versus a physical good — which is why a service business keeps no inventory records while a trading business must.

Question 8

A **cash** transaction is settled **immediately**: the money changes hands at the moment of the transaction — for example, a hairdresser cuts a client's hair and is paid $45 by EFT on the spot. A **credit** transaction is settled at an **agreed later date**: the service is provided now but paid for later — for example, a bookkeeper completes a client's records and issues an invoice for $330 due in 30 days, creating an **account receivable**. The difference is one of **timing of settlement**: a cash transaction changes the Bank balance now (and is recorded in a cash journal), whereas a credit transaction does not affect Bank until the money is later received or paid.

Question 9

Single-entry cash accounting records only the **cash side** of transactions — a running list of receipts and payments through the Bank, each entered once. It is unsuitable for a complete set of classified reports because, **first**, it does not record the **twofold effect** of transactions, so it does not track assets and liabilities and cannot readily produce a **Balance Sheet**; and **second**, it has **no self-balancing mechanism**, so an omitted or mis-recorded amount is not detected — the records may be incomplete or unreliable, and cannot be trusted to produce a faithful Income Statement and Balance Sheet.

Question 10

The **Cash Receipts Journal** records **every cash receipt** — all money received by the business (fees, capital contributed, interest received); the **Cash Payments Journal** records **every cash payment** — all money paid out (wages, advertising, rent, drawings). Both are **special journals**, each dedicated to one kind of transaction. They are called **books of first entry** because they are the **first place a transaction is recorded** — the source documents are entered here before the column totals are later summarised into the accounting reports.

Question 11

a. **CRJ** (cash received for a job — money in).
b. **CPJ** (wages paid — money out).
c. **CRJ** (owner's cash capital contribution — money in; recorded in Sundries).
d. **CPJ** (owner's cash drawings — money out; recorded in Sundries).
e. **CPJ** (advertising paid — money out).
f. **CRJ** (interest received — money in; no GST applies to interest, so the full $150 is recorded).

Question 12

a. $77 ÷ 11 = **$7**.
b. $935 ÷ 11 = **$85**.
c. $1 210 ÷ 11 = **$110**.
d. $4 620 ÷ 11 = **$420**.

Question 13

(i) GST collected = $2 090 ÷ 11 = **$190**.
(ii) Fees revenue = $2 090 − $190 = **$1 900**. The GST is credited to the **GST Clearing** account (a liability — GST collected on behalf of the ATO).

Question 14

Omitting the $660 cash receipt removes it from the Bank column, so the CRJ **Bank column total is understated by $660** (within it, Fees understated $600 and GST understated $60). Because the CRJ Bank total feeds the reports, the **Cash Flow Statement** understates cash received from operations by $660; the **Income Statement** also understates fees revenue (and therefore profit) by $600, and the GST Clearing liability is understated by $60. ∴ the single omission flows through to overstate the apparent "health" of the business by understating both cash and profit.

Question 15

Fee $2 200: GST = 2 200 ÷ 11 = $200, Fees $2 000. Fee $990: GST = 990 ÷ 11 = $90, Fees $900. Capital $6 000: no GST, to Sundries.

Willow Web Design — Cash Receipts Journal

Date 2026	Details	Rec. No.	Bank $	Fees $	GST $	Sundries $
10 Aug	Fees	20	2 200	2 000	200	
12 Aug	Capital — P Nair	21	6 000			6 000
14 Aug	Fees	22	990	900	90	
Total			**9 190**	**2 900**	**290**	**6 000**

Check: Fees 2 900 + GST 290 + Sundries 6 000 = **9 190** = Bank total.

Question 16

Wages $2 400: no GST. Internet and phone $154: GST = 154 ÷ 11 = $14, expense $140 to Sundries. Drawings $800: no GST, to Sundries.

Willow Web Design — Cash Payments Journal

Date 2026	Details	Chq/EFT No.	Bank $	Wages $	GST $	Sundries $
11 Aug	Wages	EFT 4401	2 400	2 400		
13 Aug	Internet & phone	EFT 4402	154		14	140
14 Aug	Drawings — P Nair	EFT 4403	800			800
Total			**3 354**	**2 400**	**14**	**940**

Check: Wages 2 400 + GST 14 + Sundries 940 = **3 354** = Bank total.

Question 17

Keeping $200 of cash fees "off the books" breaches **faithful representation**: the records are no longer **complete** — a receipt that occurred has been left out, biasing the reports. Paying private groceries from the business account breaches the **accounting entity** assumption, which requires the owner's private transactions to be kept separate from the business (any cash the owner takes should be recorded as **drawings**, not disguised as a business expense). The financial implications are that the omitted fees **understate fees revenue and profit** (and understate the GST owed to the ATO — tax evasion), while the grocery payments **overstate business expenses and understate profit** and misstate the owner's drawings. Either way the reports no longer faithfully represent the business's performance and position, so any stakeholder relying on them is misled — and the owner risks penalties for the unrecorded income. The owner should record **all** cash received and treat every private payment as drawings.

Question 18

The **accounting entity** assumption treats the business as an entity **separate and distinct from its owner**, so only the **business's** transactions belong in its records; the owner's private cash must be kept separate so the reports show the performance and position of the **business alone**. If the owner paid a $900 personal holiday from the business Bank and recorded it as a business expense, business expenses would be **overstated by $900** and profit **understated by $900** — and the payment should instead have been recorded as **drawings** (a reduction of the owner's Capital, not an expense). Keeping private and business cash separate ensures the Income Statement and Balance Sheet faithfully represent the business and nothing else.

Chapter 7 Cash accounting for a service business — 7B The Cash Receipts Journal

Theory

A **service business** earns its revenue by providing a service — cleaning, tutoring, plumbing, consulting — rather than by buying and selling inventory. Because it holds no inventory, a service business owned by a sole proprietor can record its day-to-day transactions using **single-entry cash accounting**: it tracks the money flowing into and out of its **Bank** account. Every amount **received** is recorded first in the **Cash Receipts Journal (CRJ)**.

A **special journal** is a book of original entry that groups together many transactions of the *same type* so they can be recorded on one line each and posted in total. The Cash Receipts Journal records **every receipt of cash** — the owner's capital, cash fees earned, loans borrowed and money collected from accounts receivable — in date order, one line per receipt, evidenced by a sequentially numbered **receipt** (the source document). Rather than a single money column, the CRJ is a **multi-column** journal: the total banked is written once in the **Bank** column and then *analysed* across a set of columns that classify **what the receipt was for**.

Column structure. For a service business the Cash Receipts Journal has the columns:

Date	Details	Rec. No.	Bank $	Discount expense $	Fees $	GST $	Sundries $
…	…	…	*cash banked*	*discount allowed*	*fee revenue*	*GST collected*	*everything else*

- **Bank** — the actual amount of cash deposited (the increase in the Bank asset).
- **Discount expense** — a **settlement discount** allowed to a credit customer for paying early.
- **Fees** — **fee revenue** earned in cash (GST-exclusive), the business's main revenue.
- **GST** — the 10% Goods and Services Tax collected on cash fees or commission, owed to the ATO through the **GST Clearing** account.
- **Sundries** — any receipt too infrequent to justify its own column: the owner's **Capital**, a **Loan**, the **Accounts Receivable** balance cleared, **Commission revenue**, and so on. The Details column names the account for each sundry item.

How each receipt is analysed.

- **Capital contribution.** When the owner pays cash into the business, the Bank asset rises and the owner's **Capital** rises. A capital contribution is **not revenue** and **not a taxable supply**, so it carries **no GST**: Bank = the amount contributed; Sundries = the same amount (Capital).
- **Cash fees / commission revenue earned (with GST).** Fee revenue earned for cash is recorded in the **Fees** column; the 10% GST added to the customer's bill is recorded in the **GST** column; the **Bank** column shows the GST-inclusive total banked. A less frequent revenue such as **commission** has no column of its own, so it is recorded in **Sundries** (as *Commission revenue*) with its GST still going to the **GST** column.
- **Loans received.** Borrowing increases the Bank asset and creates a liability named after the lender, **Loan – *lender name*** (for example, Loan – Coastal Finance). A loan is neither revenue nor a supply, so it carries **no GST**: Bank = the amount borrowed; Sundries = the same amount (Loan – *lender name*).
- **Receipts from accounts receivable (with discount expense).** When a credit customer pays their account, the Bank asset rises and the **Accounts Receivable** asset falls. If the business allowed a **settlement discount** (a **discount expense**) for prompt payment, the customer pays **less** than they owed. The **Discount expense** column records the discount allowed; the **Bank** column records the smaller amount actually received; and the **Sundries** column records the **full** amount the customer's account is cleared by — that is, **Bank + Discount expense = Accounts Receivable cleared**.

Discount expense carries no GST. A settlement discount is a reward for early payment, not a change to the price of the original service, so the study design **excludes GST from settlement discounts**. The GST on the original fee was recorded when the service was first invoiced; it is not adjusted when a discount is later given. **Discount expense** is an **expense** — the cost of encouraging customers to pay promptly — and it reduces net profit even though no cash leaves the business.

GST is one-eleventh of a GST-inclusive receipt. Because GST is added at 10%, a GST-inclusive amount is 110% of the fee. To split it, GST = **1/11** of the GST-inclusive receipt (an exact fraction), which equals 10% of the fee. For example, a cash fee receipt of $1 100 (GST-inclusive) contains GST of $1 100 ÷ 11 = $100 and fee revenue of $1 000.

Cross-adding and the totals row. At the end of the period every money column is totalled and a **bold Totals row** is added. The journal must **cross-add**: the cash banked plus the discount allowed must equal the total of everything the receipts were analysed into —

Bank total + Discount expense total = Fees total + GST total + Sundries total.

If the two sides are equal the analysis is complete and the totals can be posted. The **Bank** column total is the total cash received for the period and is posted to the **Bank** account (and used to prepare the Cash Flow Statement); the **Fees** total is posted to **Fees** revenue, the **GST** total to **GST Clearing**, and the **Discount expense** total to **Discount expense**. Items in the **Sundries** column are posted **individually** to their named accounts (Capital, each Loan, Accounts Receivable), not as one figure, because they are unrelated to one another.

The Cash Receipts Journal reflects the qualitative characteristic of **faithful representation**: to be complete, neutral and free from error, it must include **every** cash receipt, correctly classified. Recording each receipt as the cash is banked also supports **relevance** and gives the owner timely information for decisions.

Ethical considerations. Because a service business often receives its fees in cash — the asset most easily concealed — the owner has both a legal and an ethical obligation to record **every** cash receipt in the Cash Receipts Journal. Deliberately omitting cash fees (for example, banking some takings privately and leaving them out of the journal) understates revenue, understates the GST collected and owed to the Australian Taxation Office, and understates profit and the owner's income tax. It produces reports that are **not a faithful representation** of the firm's performance — they are incomplete and biased — and misleads any bank, investor or prospective buyer who relies on them. Acting with integrity means recording all cash received, banking it intact, and issuing a sequentially numbered receipt for every transaction so the journal can be independently verified.

Worked model. Clearwater Cleaning is a service business owned by a sole proprietor. During the first week of May 2025 it recorded four receipts: the owner's opening capital of $8 000 (**Rec. 1**); cash cleaning fees of $600 plus $60 GST (**Rec. 2**); a $5 000 loan from Coastal Finance (**Rec. 3**); and $418 from the credit customer T. Nguyen, who was allowed a $22 settlement discount on their $440 account (**Rec. 4**).

Cash Receipts Journal — Clearwater Cleaning (May 2025)

Date	Details	Rec. No.	Bank $	Discount expense $	Fees $	GST $	Sundries $
1 May	Capital	1	8 000				8 000
3 May	Cash fees	2	660		600	60	
5 May	Loan – Coastal Finance	3	5 000				5 000
7 May	T. Nguyen	4	418	22			440
	Totals		**14 078**	**22**	**600**	**60**	**13 440**

Cross-add: Bank $14 078 + Discount $22 = $14 100 = Fees $600 + GST $60 + Sundries $13 440. The Bank total of $14 078 is the total cash received for the week and is posted to the **Bank** account.

Worked examples (scaffolded)

Example 1 — capital, cash fees with GST, and a loan

Meridian Mowing is a garden-care service. In June 2025 it recorded: 1 June, owner's capital $12 000 (**Rec. 101**); 4 June, cash mowing fees $900 plus GST (**Rec. 102**); 9 June, a $6 000 loan from Northbank (**Rec. 103**); 15 June, cash mowing fees $1 240 plus GST (**Rec. 104**). Record the receipts in the Cash Receipts Journal, total the columns and cross-add.

Working	Comment
1 Jun — Capital $12 000 (Rec. 101): Bank $12 000; Sundries $12 000 (Capital).	The owner's cash contribution is not revenue and not a taxable supply, so it carries **no GST** and goes to **Sundries** as **Capital**.
4 Jun — Cash fees $900 + GST (Rec. 102): GST = 10% × $900 = $90; Bank $990; Fees $900; GST $90.	Fee revenue earned in cash gets its own **Fees** column; the GST is added and banked, so the Bank cell is the GST-inclusive $990.
9 Jun — Loan $6 000 (Rec. 103): Bank $6 000; Sundries $6 000 (Loan – Northbank).	Borrowing increases cash and a liability — neither revenue nor a supply — so **no GST**; recorded in **Sundries**.
15 Jun — Cash fees $1 240 + GST (Rec. 104): GST = $124; Bank $1 364; Fees $1 240; GST $124.	Same treatment as 4 June; check GST = 1/11 × $1 364 = $124.
Cross-add: Bank $20 354 + Discount $0 = Fees $2 140 + GST $214 + Sundries $18 000 = $20 354.	The two sides agree, so the analysis is complete and the Bank total can be posted.

Cash Receipts Journal — Meridian Mowing (June 2025)

Date	Details	Rec. No.	Bank $	Discount expense $	Fees $	GST $	Sundries $
1 Jun	Capital	101	12 000				12 000
4 Jun	Cash fees	102	990		900	90	
9 Jun	Loan – Northbank	103	6 000				6 000
15 Jun	Cash fees	104	1 364		1 240	124	
	Totals		**20 354**		**2 140**	**214**	**18 000**

Example 2 — receipts from accounts receivable (discount expense) and a commission

Skyline Signwriting recorded in July 2025: 2 July, cash design fees $560 plus GST (**Rec. 210**); 6 July, $735 from the debtor Ridgeway Cafe, who was allowed a $65 settlement discount on its $800 account (**Rec. 211**); 11 July, commission revenue $300 plus GST (**Rec. 212**); 20 July, $392 from the debtor M. Alvarez, allowed an $8 discount on their $400 account (**Rec. 213**). Record the receipts and cross-add.

Working	Comment
2 Jul — Cash fees $560 + GST (Rec. 210): GST = $56; Bank $616; Fees $560; GST $56.	Ordinary cash fee revenue.
6 Jul — Ridgeway Cafe (Rec. 211): Bank $735; Discount expense $65; Sundries $800 (Accounts Receivable).	Bank $735 + Discount $65 = $800, the amount the debtor's account is cleared by. The **discount carries no GST**.
11 Jul — Commission $300 + GST (Rec. 212): GST = $30; Bank $330; Sundries $300 (Commission revenue); GST $30.	Commission is revenue but too infrequent for its own column, so it goes to **Sundries**; its GST still goes to the **GST** column.
20 Jul — M. Alvarez (Rec. 213): Bank $392; Discount expense $8; Sundries $400 (Accounts Receivable).	$392 + $8 = $400 cleared; again no GST on the discount.
Cross-add: Bank $2 073 + Discount $73 = $2 146 = Fees $560 + GST $86 + Sundries $1 500.	The journal cross-adds.

Cash Receipts Journal — Skyline Signwriting (July 2025)

Date	Details	Rec. No.	Bank $	Discount expense $	Fees $	GST $	Sundries $
2 Jul	Cash fees	210	616		560	56	

Date	Details	Rec. No.	Bank $	Discount expense $	Fees $	GST $	Sundries $
6 Jul	Ridgeway Cafe	211	735	65			800
11 Jul	Commission revenue	212	330			30	300
20 Jul	M. Alvarez	213	392	8			400
	Totals		**2 073**	**73**	**560**	**86**	**1 500**

Worked examples (unscaffolded)

Example 3 — a full month for a service business

Pinnacle Plumbing recorded the following receipts in August 2025: 1 Aug, owner's capital $15 000 (**Rec. 301**); 5 Aug, cash plumbing fees $2 100 plus GST (**Rec. 302**); 12 Aug, an $8 000 loan from Delta Credit Union (**Rec. 303**); 18 Aug, $1 150 from the debtor Harbourview Apartments, allowed a $50 discount on its $1 200 account (**Rec. 304**); 26 Aug, cash plumbing fees $1 680 plus GST (**Rec. 305**). Prepare the Cash Receipts Journal.

GST on the fees = $210 (5 Aug) and $168 (26 Aug). The receipt from Harbourview Apartments clears $1 150 + $50 = $1 200 of Accounts Receivable, with no GST on the discount. The capital and the loan carry no GST.

Cash Receipts Journal — Pinnacle Plumbing (August 2025)

Date	Details	Rec. No.	Bank $	Discount expense $	Fees $	GST $	Sundries $
1 Aug	Capital	301	15 000				15 000
5 Aug	Cash fees	302	2 310		2 100	210	
12 Aug	Loan – Delta Credit Union	303	8 000				8 000
18 Aug	Harbourview Apartments	304	1 150	50			1 200
26 Aug	Cash fees	305	1 848		1 680	168	
	Totals		**28 308**	**50**	**3 780**	**378**	**24 200**

∴ Bank $28 308 + Discount $50 = $28 358 = Fees $3 780 + GST $378 + Sundries $24 200; the journal cross-adds and the Bank total of **$28 308** is posted to the Bank account.

Example 4 — cash fees, two receipts from accounts receivable, and a commission

Vantage Valet (car-detailing service) recorded in September 2025: 3 Sep, cash detailing fees $840 plus GST (**Rec. 410**); 8 Sep, $588 from the debtor Coastline Motors, allowed a $12 discount on its $600 account (**Rec. 411**); 14 Sep, commission from a referral partner $250 plus GST (**Rec. 412**); 21 Sep, $980 from the debtor B. Whitfield, allowed a $20 discount on their $1 000 account (**Rec. 413**); 28 Sep, cash detailing fees $1 120 plus GST (**Rec. 414**). Prepare the Cash Receipts Journal.

GST on the fees = $84 and $112; GST on the commission = $25 (recorded with the commission in Sundries). The two receipts from accounts receivable clear $600 and $1 000 respectively, with no GST on either discount.

Cash Receipts Journal — Vantage Valet (September 2025)

Date	Details	Rec. No.	Bank $	Discount expense $	Fees $	GST $	Sundries $
3 Sep	Cash fees	410	924		840	84	

Date	Details	Rec. No.	Bank $	Discount expense $	Fees $	GST $	Sundries $
8 Sep	Coastline Motors	411	588	12			600
14 Sep	Commission revenue	412	275			25	250
21 Sep	B. Whitfield	413	980	20			1 000
28 Sep	Cash fees	414	1 232		1 120	112	
	Totals		**3 999**	**32**	**1 960**	**221**	**1 850**

∴ Bank $3 999 + Discount $32 = $4 031 = Fees $1 960 + GST $221 + Sundries $1 850; the journal cross-adds.

Practice questions — scaffolded

Question 1

Brightpath Tutoring recorded in October 2025: 1 Oct, owner's capital $9 000 (**Rec. 1**); 6 Oct, cash tutoring fees $700 plus GST (**Rec. 2**); 13 Oct, a $4 000 loan from Summit Finance (**Rec. 3**); 22 Oct, cash tutoring fees $960 plus GST (**Rec. 4**).

a. Prepare the Cash Receipts Journal for October, with a bold Totals row.
b. State the total of the Bank column.
c. Show that the journal cross-adds (Bank + Discount expense = Fees + GST + Sundries).

Question 2

Ironclad Security (a monitoring service) recorded in November 2025: 2 Nov, cash monitoring fees $1 500 plus GST (**Rec. 20**); 9 Nov, $735 from the debtor Lakeside Mall, allowed a $15 discount on its $750 account (**Rec. 21**); 16 Nov, $1 470 from the debtor Cedar Offices, allowed a $30 discount on its $1 500 account (**Rec. 22**); 24 Nov, cash monitoring fees $2 200 plus GST (**Rec. 23**).

a. Prepare the Cash Receipts Journal for November.
b. Calculate the total discount expense and state the account debited with it.
c. Explain why no GST is recorded on the settlement discounts.

Question 3

Aeroview Drone Services recorded in December 2025: 1 Dec, owner's capital $20 000 (**Rec. 50**); 7 Dec, cash aerial-survey fees $1 300 plus GST (**Rec. 51**); 14 Dec, commission revenue $400 plus GST (**Rec. 52**); 20 Dec, a $10 000 loan from Horizon Bank (**Rec. 53**).

a. Prepare the Cash Receipts Journal for December.
b. State the column and the account used to record the commission receipt, and explain why it is not recorded in the Fees column.
c. Calculate the total of the GST column and state the account it is posted to.

Question 4

Craftline Carpentry (a repairs service) recorded in March 2026: 3 Mar, cash repair fees $480 plus GST (**Rec. 70**); 10 Mar, $940 from the debtor Rosewood Homes, allowed a $60 discount on its $1 000 account (**Rec. 71**); 19 Mar, cash repair fees $1 050 plus GST (**Rec. 72**); 27 Mar, $343 from the debtor P. Sandhu, allowed a $7 discount on their $350 account (**Rec. 73**).

a. Prepare the Cash Receipts Journal for March.

b. State the amount by which each debtor's account is reduced, and explain how that amount relates to the Bank and Discount expense columns.

c. Show that the journal cross-adds.

Question 5

Zephyr Window Cleaning recorded in April 2026: 1 Apr, owner's capital $5 000 (**Rec. 90**); 8 Apr, cash window-cleaning fees, banked $1 100 (GST-inclusive) (**Rec. 91**); 15 Apr, cash fees, banked $2 530 (GST-inclusive) (**Rec. 92**); 23 Apr, a $3 000 loan from Meridian Finance (**Rec. 93**).

a. Prepare the Cash Receipts Journal for April, splitting each GST-inclusive fee receipt into its Fees and GST amounts.

b. Calculate the GST on the 8 April and 15 April receipts, using GST = 1/11 of the GST-inclusive amount.

c. State the total of the Bank column and the total of the Fees column.

Question 6

Summit Surveying recorded in May 2026: 1 May, owner's capital $18 000 (**Rec. 110**); 6 May, cash surveying fees $1 900 plus GST (**Rec. 111**); 13 May, a $12 000 loan from Eastwood Bank (**Rec. 112**); 19 May, $1 862 from the debtor Granite Developments, allowed a $38 discount on its $1 900 account (**Rec. 113**); 27 May, cash surveying fees $2 400 plus GST (**Rec. 114**).

a. Prepare the Cash Receipts Journal for May.

b. Total every column and prepare the bold Totals row.

c. Explain what the Bank column total represents and state where it is posted.

Practice questions — unscaffolded

Question 7

Trailhead Tours recorded in June 2026: 1 Jun, owner's capital $14 000 (**Rec. 130**); 5 Jun, cash tour fees $1 700 plus GST (**Rec. 131**); 12 Jun, a $7 500 loan from Cascade Finance (**Rec. 132**); 22 Jun, cash tour fees $2 050 plus GST (**Rec. 133**). Prepare the Cash Receipts Journal and state the Bank total.

Question 8

Metroline Couriers recorded in July 2026: 2 Jul, cash delivery fees $1 240 plus GST (**Rec. 140**); 9 Jul, $1 225 from the debtor Bayside Retail, allowed a $25 discount on its $1 250 account (**Rec. 141**); 17 Jul, $882 from the debtor Forsythe Legal, allowed an $18 discount on its $900 account (**Rec. 142**); 25 Jul, cash delivery fees $1 560 plus GST (**Rec. 143**). Prepare the Cash Receipts Journal and state the total discount expense.

Question 9

Harbourlight Photography recorded in August 2026: 1 Aug, owner's capital $6 500 (**Rec. 150**); 7 Aug, cash photography fees $1 450 plus GST (**Rec. 151**); 15 Aug, commission from an album supplier $500 plus GST (**Rec. 152**); 23 Aug, cash photography fees $980 plus GST (**Rec. 153**). Prepare the Cash Receipts Journal and state the total of the GST column.

Question 10

Cobalt IT Support recorded in September 2026: 3 Sep, cash support fees, banked $1 650 (GST-inclusive) (**Rec. 160**); 11 Sep, cash support fees, banked $2 970 (GST-inclusive) (**Rec. 161**); 18 Sep, a $5 000 loan from Trident Finance (**Rec. 162**); 26 Sep, cash support fees, banked $836 (GST-inclusive) (**Rec. 163**). Prepare the Cash Receipts Journal (splitting each GST-inclusive fee into Fees and GST) and state the Fees and GST totals.

Question 11

Ridgeway Architects recorded in October 2026: 1 Oct, owner's capital $25 000 (**Rec. 170**); 4 Oct, cash design fees $3 200 plus GST (**Rec. 171**); 10 Oct, a $15 000 loan from Pinnacle Bank (**Rec. 172**); 16 Oct, $2 450 from the debtor

Marlowe Estates, allowed a $50 discount on its $2 500 account (**Rec. 173**); 23 Oct, commission revenue $600 plus GST (**Rec. 174**); 30 Oct, cash design fees $2 800 plus GST (**Rec. 175**). Prepare the Cash Receipts Journal and cross-add.

Question 12

For each of the following receipts of Vanguard Cleaning during November 2026, state the analysis column(s) that would be used and the account (if any) recorded in the Sundries column:

i. Cash cleaning fees of $770 (GST-inclusive).
ii. A cheque for $9 000 contributed by the owner as additional capital.
iii. $4 000 borrowed from Coastal Finance.
iv. $490 received from the debtor J. Ellery in full settlement of her $500 account.
v. Commission of $220 (GST-inclusive) received from a supplier.

Question 13

The Cash Receipts Journal of Elmwood Consulting for December 2026 has these column totals: Bank $?, Discount expense $90, Fees $4 500, GST $450, Sundries $16 000. Only the cash fees carried GST. Calculate the total of the Bank column, and verify that your figure makes the journal cross-add.

Question 14

Beacon Electrical Services recorded in January 2027: 5 Jan, cash fees $1 320 plus GST (**Rec. 200**); 12 Jan, $1 421 from the debtor Cliffside Gym, allowed a $29 discount on its $1 450 account (**Rec. 201**); 19 Jan, $980 from the debtor Parkview School in full settlement of its $980 account, with **no** discount because it paid after the discount period (**Rec. 202**); 27 Jan, cash fees $1 600 plus GST (**Rec. 203**). Prepare the Cash Receipts Journal, and explain why the 19 January receipt is recorded differently from the 12 January receipt.

Question 15

Solaris Energy Audits recorded in February 2027: 1 Feb, owner's capital $30 000 (**Rec. 220**); 3 Feb, cash audit fees $4 100 plus GST (**Rec. 221**); 9 Feb, an $18 000 loan from Meridian Bank (**Rec. 222**); 15 Feb, $3 920 from the debtor Hollowfield Council, allowed an $80 discount on its $4 000 account (**Rec. 223**); 21 Feb, commission revenue $700 plus GST (**Rec. 224**); 28 Feb, cash audit fees $3 500 plus GST (**Rec. 225**). Prepare the Cash Receipts Journal, state the Bank total, and state where that total is posted.

Question 16

Kingsley Landscaping recorded three receipts during one week: $11 000 of additional capital contributed by the owner; $6 600 borrowed from Delta Finance; and $1 540 (GST-inclusive) in cash mowing fees. Explain why GST is recorded on only one of these three receipts, and calculate the GST recorded in the Cash Receipts Journal for the week.

Question 17

Riverbend Fitness Studio is a service business that receives a large share of its class fees in cash. At the end of June its owner, wanting to reduce the business's GST and income-tax obligations, instructs the bookkeeper to leave several cash fee receipts out of the Cash Receipts Journal and to bank that cash into the owner's private account. Discuss the ethical considerations involved in recording all cash received in the Cash Receipts Journal, and explain the effect on the business's reports of omitting the cash fees.

Question 18

Aurora Event Management recorded in March 2027: 1 Mar, owner's capital $22 000 (**Rec. 300**); 4 Mar, cash management fees, banked $3 300 (GST-inclusive) (**Rec. 301**); 9 Mar, a $9 000 loan from Horizon Finance (**Rec. 302**); 14 Mar, $2 352 from the debtor Lakeshore Weddings, allowed a $48 discount on its $2 400 account (**Rec. 303**); 20 Mar, commission, banked $440 (GST-inclusive) (**Rec. 304**); 25 Mar, cash management fees, banked $4 565 (GST-inclusive) (**Rec. 305**); 30 Mar, $1 930 from the debtor Grandview Venues, allowed a $70 discount on its $2 000 account (**Rec. 306**). Prepare the Cash Receipts Journal (splitting each GST-inclusive receipt into its revenue and GST) and cross-add.

Answers

1.
    b. Bank total $14 826. c. $14 826 + $0 = Fees $1 660 + GST $166 + Sundries $13 000 = $14 826.
2.
    b. Discount expense $45, debited to the **Discount expense** account. c. Settlement discounts are excluded from GST by the study design.
3.
    b. Sundries column, as **Commission revenue** (too infrequent for its own column). c. GST $170, posted to **GST Clearing**.
4.
    b. $1 000 (Rosewood Homes) and $350 (P. Sandhu) — each equals Bank + Discount expense. c. Cross-adds to $3 033.
5.
    b. $100 and $230. c. Bank $11 630; Fees $3 300.
6.
    b. Bank $36 592, Discount $38, Fees $4 300, GST $430, Sundries $31 900. c. See solutions.
7. Bank $25 625 (Fees $3 750, GST $375, Sundries $21 500).
8. Bank $5 187; total discount expense $43.
9. Bank $9 723; GST $293.
10. Bank $10 456; Fees $4 960; GST $496.
11. Bank $49 710 (cross-adds to $49 760).
12. i Bank $770, Fees $700, GST $70; ii Bank $9 000, Sundries $9 000 (Capital); iii Bank $4 000, Sundries $4 000 (Loan – Coastal Finance); iv Bank $490, Discount expense $10, Sundries $500 (Accounts Receivable); v Bank $220, GST $20, Sundries $200 (Commission revenue).
13. Bank $20 860.
14. Bank $5 613; discount expense $29 (on the 12 January receipt only).
15. Bank $61 050 (cross-adds to $61 130); posted to the **Bank** account.
16. GST $140 (on the cash fees only).
17. See solutions.
18. Bank $43 587 (cross-adds to $43 705).

Fully-worked solutions

Question 1

Cash Receipts Journal — Brightpath Tutoring (October 2025)

Date	Details	Rec. No.	Bank $	Discount expense $	Fees $	GST $	Sundries $
1 Oct	Capital	1	9 000				9 000
6 Oct	Cash fees	2	770		700	70	
13 Oct	Loan – Summit Finance	3	4 000				4 000
22 Oct	Cash fees	4	1 056		960	96	
	Totals		**14 826**		**1 660**	**166**	**13 000**

b. Bank total = **$14 826**. c. Bank $14 826 + Discount $0 = $14 826 = Fees $1 660 + GST $166 + Sundries $13 000. The journal cross-adds.

Question 2

Cash Receipts Journal — Ironclad Security (November 2025)

Date	Details	Rec. No.	Bank $	Discount expense $	Fees $	GST $	Sundries $
2 Nov	Cash fees	20	1 650		1 500	150	
9 Nov	Lakeside Mall	21	735	15			750
16 Nov	Cedar Offices	22	1 470	30			1 500
24 Nov	Cash fees	23	2 420		2 200	220	
	Totals		**6 275**	**45**	**3 700**	**370**	**2 250**

b. Total discount expense = $15 + $30 = **$45**, debited to the **Discount expense** account (it is the cost of allowing customers to settle their accounts early).

c. A settlement discount is a reward for prompt payment, not a reduction in the price of the service originally supplied. The study design **excludes GST from settlement discounts**, so the GST recorded when each service was first invoiced is not adjusted, and no GST is entered in the Discount expense line.

Question 3

Cash Receipts Journal — Aeroview Drone Services (December 2025)

Date	Details	Rec. No.	Bank $	Discount expense $	Fees $	GST $	Sundries $
1 Dec	Capital	50	20 000				20 000
7 Dec	Cash fees	51	1 430		1 300	130	
14 Dec	Commission revenue	52	440			40	400
20 Dec	Loan – Horizon Bank	53	10 000				10 000
	Totals		**31 870**		**1 300**	**170**	**30 400**

b. The commission is recorded in the **Sundries** column as **Commission revenue**, with its GST ($40) in the GST column. It is not put in the **Fees** column because Fees is reserved for the business's main service revenue; commission is earned too infrequently to justify its own column, so it goes to Sundries.

c. GST total = $130 + $40 = **$170**, posted to the **GST Clearing** account.

Question 4

Cash Receipts Journal — Craftline Carpentry (March 2026)

Date	Details	Rec. No.	Bank $	Discount expense $	Fees $	GST $	Sundries $
3 Mar	Cash fees	70	528		480	48	
10 Mar	Rosewood Homes	71	940	60			1 000
19 Mar	Cash fees	72	1 155		1 050	105	
27 Mar	P. Sandhu	73	343	7			350
	Totals		**2 966**	**67**	**1 530**	**153**	**1 350**

b. Rosewood Homes' account is reduced by **$1 000** (Bank $940 + Discount $60) and P. Sandhu's by **$350** (Bank $343 + Discount $7). For a receipt from an account receivable, the Bank column (cash received) plus the Discount expense column (discount allowed) equals the amount the debtor's account is cleared by, which is recorded in Sundries as Accounts Receivable.

c. Bank $2 966 + Discount $67 = $3 033 = Fees $1 530 + GST $153 + Sundries $1 350. The journal cross-adds.

Question 5

GST = 1/11 of each GST-inclusive fee: $1 100 ÷ 11 = $100 (Fees $1 000); $2 530 ÷ 11 = $230 (Fees $2 300).

Cash Receipts Journal — Zephyr Window Cleaning (April 2026)

Date	Details	Rec. No.	Bank $	Discount expense $	Fees $	GST $	Sundries $
1 Apr	Capital	90	5 000				5 000
8 Apr	Cash fees	91	1 100		1 000	100	
15 Apr	Cash fees	92	2 530		2 300	230	
23 Apr	Loan – Meridian Finance	93	3 000				3 000
	Totals		**11 630**		**3 300**	**330**	**8 000**

b. 8 April: GST = $1 100 ÷ 11 = **$100**. 15 April: GST = $2 530 ÷ 11 = **$230**.

c. Bank total = **$11 630**; Fees total = **$3 300**. (Check: $11 630 = $3 300 + $330 + $8 000.)

Question 6

Cash Receipts Journal — Summit Surveying (May 2026)

Date	Details	Rec. No.	Bank $	Discount expense $	Fees $	GST $	Sundries $
1 May	Capital	110	18 000				18 000
6 May	Cash fees	111	2 090		1 900	190	
13 May	Loan – Eastwood Bank	112	12 000				12 000
19 May	Granite Developments	113	1 862	38			1 900
27 May	Cash fees	114	2 640		2 400	240	
	Totals		**36 592**	**38**	**4 300**	**430**	**31 900**

b. Totals as shown (bold row). Cross-add: Bank $36 592 + Discount $38 = $36 630 = Fees $4 300 + GST $430 + Sundries $31 900.

c. The Bank column total (**$36 592**) is the **total cash received** by Summit Surveying for May. It is posted to the **Bank** account (increasing that asset) and is used to prepare the Cash Flow Statement.

Question 7

Cash Receipts Journal — Trailhead Tours (June 2026)

Date	Details	Rec. No.	Bank $	Discount expense $	Fees $	GST $	Sundries $
1 Jun	Capital	130	14 000				14 000
5 Jun	Cash fees	131	1 870		1 700	170	
12 Jun	Loan – Cascade Finance	132	7 500				7 500
22 Jun	Cash fees	133	2 255		2 050	205	
	Totals		**25 625**		**3 750**	**375**	**21 500**

Bank total = **$25 625**. Cross-add: $25 625 = $3 750 + $375 + $21 500.

Question 8

Cash Receipts Journal — Metroline Couriers (July 2026)

Date	Details	Rec. No.	Bank $	Discount expense $	Fees $	GST $	Sundries $
2 Jul	Cash fees	140	1 364		1 240	124	
9 Jul	Bayside Retail	141	1 225	25			1 250
17 Jul	Forsythe Legal	142	882	18			900
25 Jul	Cash fees	143	1 716		1 560	156	
	Totals		**5 187**	**43**	**2 800**	**280**	**2 150**

Total discount expense = $25 + $18 = **$43**. Cross-add: Bank $5 187 + Discount $43 = $5 230 = Fees $2 800 + GST $280 + Sundries $2 150.

Question 9

Cash Receipts Journal — Harbourlight Photography (August 2026)

Date	Details	Rec. No.	Bank $	Discount expense $	Fees $	GST $	Sundries $
1 Aug	Capital	150	6 500				6 500
7 Aug	Cash fees	151	1 595		1 450	145	
15 Aug	Commission revenue	152	550			50	500
23 Aug	Cash fees	153	1 078		980	98	
	Totals		**9 723**		**2 430**	**293**	**7 000**

GST total = $145 + $50 + $98 = **$293** (the commission's GST is included even though the commission itself sits in Sundries). Cross-add: $9 723 = $2 430 + $293 + $7 000.

Question 10

Split each GST-inclusive fee: $1 650 ÷ 11 = $150 (Fees $1 500); $2 970 ÷ 11 = $270 (Fees $2 700); $836 ÷ 11 = $76 (Fees $760).

Cash Receipts Journal — Cobalt IT Support (September 2026)

Date	Details	Rec. No.	Bank $	Discount expense $	Fees $	GST $	Sundries $
3 Sep	Cash fees	160	1 650		1 500	150	
11 Sep	Cash fees	161	2 970		2 700	270	
18 Sep	Loan – Trident Finance	162	5 000				5 000
26 Sep	Cash fees	163	836		760	76	
	Totals		**10 456**		**4 960**	**496**	**5 000**

Fees total = **$4 960**; GST total = **$496**. Cross-add: $10 456 = $4 960 + $496 + $5 000.

Question 11

Cash Receipts Journal — Ridgeway Architects (October 2026)

Date	Details	Rec. No.	Bank $	Discount expense $	Fees $	GST $	Sundries $
1 Oct	Capital	170	25 000				25 000
4 Oct	Cash fees	171	3 520		3 200	320	
10 Oct	Loan – Pinnacle Bank	172	15 000				15 000
16 Oct	Marlowe Estates	173	2 450	50			2 500
23 Oct	Commission revenue	174	660			60	600
30 Oct	Cash fees	175	3 080		2 800	280	
	Totals		**49 710**	**50**	**6 000**	**660**	**43 100**

Cross-add: Bank $49 710 + Discount $50 = $49 760 = Fees $6 000 + GST $660 + Sundries $43 100.

Question 12

Receipt	Bank $	Analysis columns used
i. Cash fees $770 (GST-inclusive)	770	Fees $700; GST $70 ($770 ÷ 11 = $70).
ii. Owner's capital $9 000	9 000	Sundries $9 000 (**Capital**); no GST.
iii. Loan $4 000	4 000	Sundries $4 000 (**Loan – Coastal Finance**); no GST.
iv. $490 from J. Ellery ($500 account)	490	Discount expense $10; Sundries $500 (**Accounts Receivable**); no GST on the discount.
v. Commission $220 (GST-inclusive)	220	GST $20 ($220 ÷ 11); Sundries $200 (**Commission revenue**).

Question 13

Rearranging the cross-add rule: Bank = Fees + GST + Sundries − Discount expense = $4 500 + $450 + $16 000 − $90 = **$20 860**.

Check: Bank $20 860 + Discount $90 = $20 950 = Fees $4 500 + GST $450 + Sundries $16 000 = $20 950. The journal cross-adds. (GST $450 = 10% of Fees $4 500 confirms only the fees carried GST.)

Question 14

Cash Receipts Journal — Beacon Electrical Services (January 2027)

Date	Details	Rec. No.	Bank $	Discount expense $	Fees $	GST $	Sundries $
5 Jan	Cash fees	200	1 452		1 320	132	
12 Jan	Cliffside Gym	201	1 421	29			1 450
19 Jan	Parkview School	202	980				980
27 Jan	Cash fees	203	1 760		1 600	160	
	Totals		**5 613**	**29**	**2 920**	**292**	**2 430**

The 12 January receipt from Cliffside Gym is recorded with a **discount expense** of $29 because the debtor paid **within the discount period**: Bank $1 421 + Discount $29 = $1 450 cleared. The 19 January receipt from Parkview School is recorded with **no discount** because it paid **after** the discount period, so the full $980 owed is received in cash (Bank $980 = $980 of Accounts Receivable cleared) and nothing is entered in the Discount expense column. Neither receipt carries GST, as the GST was recorded when the services were first invoiced.

Question 15

Cash Receipts Journal — Solaris Energy Audits (February 2027)

Date	Details	Rec. No.	Bank $	Discount expense $	Fees $	GST $	Sundries $
1 Feb	Capital	220	30 000				30 000
3 Feb	Cash fees	221	4 510		4 100	410	
9 Feb	Loan – Meridian Bank	222	18 000				18 000
15 Feb	Hollowfield Council	223	3 920	80			4 000
21 Feb	Commission revenue	224	770			70	700
28 Feb	Cash fees	225	3 850		3 500	350	
	Totals		**61 050**	**80**	**7 600**	**830**	**52 700**

Bank total = **$61 050**, posted to the **Bank** account (and used in the Cash Flow Statement). Cross-add: Bank $61 050 + Discount $80 = $61 130 = Fees $7 600 + GST $830 + Sundries $52 700.

Question 16

GST is charged only on a **taxable supply** made by the business. Of the three receipts, only the **cash mowing fees** are a supply of a service by Kingsley Landscaping, so only they carry GST. The **$11 000 capital contribution** is the owner investing in the business (not a sale), and the **$6 600 loan** is money borrowed (not a sale), so neither is a taxable supply and neither carries GST.

GST on the fees = $1 540 ÷ 11 = **$140** (fee revenue $1 400). This is the only GST recorded for the week.

Question 17

Recording **every** cash receipt in the Cash Receipts Journal is both a legal requirement and an ethical obligation. By instructing the bookkeeper to omit cash fees and bank them privately, the owner of Riverbend Fitness Studio is deliberately understating the business's revenue in order to evade GST and income tax — conduct that is dishonest, unlawful (tax evasion and GST fraud) and a breach of the owner's duty to keep complete and accurate records. It also places the bookkeeper in an unfair position, being asked to help falsify the records.

The financial implications for the reports are significant. Omitting cash fee receipts:

- **understates fee revenue** in the Income Statement, and therefore understates **net profit**;
- **understates the GST** collected in the GST Clearing account, so the business remits less GST than it actually owes to the Australian Taxation Office;
- **understates cash** — the Bank total in the Cash Receipts Journal and the Cash Flow Statement is too low — because the takings are diverted to the owner's private account (in substance an undisclosed **drawing**).

The resulting reports are **not a faithful representation** of the business's performance and position: they are incomplete and biased, and they would mislead any bank, investor or prospective buyer who relied on them. Acting ethically, the bookkeeper should record all cash received, bank it intact, and refuse to omit the receipts; the owner should meet the business's true GST and tax obligations.

Question 18

Split each GST-inclusive receipt: fees \$3 300 ÷ 11 = \$300 (Fees \$3 000); commission \$440 ÷ 11 = \$40 (Sundries \$400); fees \$4 565 ÷ 11 = \$415 (Fees \$4 150). The discounts (\$48 and \$70) carry no GST; each debtor's account is cleared by Bank + Discount (\$2 400 and \$2 000).

Cash Receipts Journal — Aurora Event Management (March 2027)

Date	Details	Rec. No.	Bank $	Discount expense $	Fees $	GST $	Sundries $
1 Mar	Capital	300	22 000				22 000
4 Mar	Cash fees	301	3 300		3 000	300	
9 Mar	Loan – Horizon Finance	302	9 000				9 000
14 Mar	Lakeshore Weddings	303	2 352	48			2 400
20 Mar	Commission revenue	304	440			40	400
25 Mar	Cash fees	305	4 565		4 150	415	
30 Mar	Grandview Venues	306	1 930	70			2 000
	Totals		**43 587**	**118**	**7 150**	**755**	**35 800**

Cross-add: Bank \$43 587 + Discount \$118 = \$43 705 = Fees \$7 150 + GST \$755 + Sundries \$35 800. The journal cross-adds, so the Bank total of **\$43 587** can be posted.

Chapter 7 Cash accounting for a service business — 7C The Cash Payments Journal

Theory

A **service business** earns its revenue by providing a service — tutoring, plumbing, veterinary care — rather than by buying and selling inventory. Because it holds no inventory, a small service firm can keep its records using **single-entry cash accounting**: it records the cash it receives and the cash it pays, transaction by transaction, in two **special journals**. Cash received is recorded in the **Cash Receipts Journal**; every payment of cash is recorded in the **Cash Payments Journal** — the subject of this section.

The **Cash Payments Journal** is a **multi-column journal** that lists every outflow of cash from the business's **Bank** account during a reporting period and, at the same time, *classifies* each payment so that the period totals can be reported. Every payment is supported by a **source document** — the cheque butt or the **EFT** (electronic funds transfer) remittance — whose reference number is entered so the record can be traced and audited.

Column structure. The journal used in this section has eight columns:

- **Date** — the date of the payment.
- **Details** — the name of the account affected by the payment: a supplier being paid, an expense such as **Rent expense**, **Drawings**, a non-current asset, or a loan.
- **Chq/EFT** — the reference number of the cheque or EFT used to make the payment.
- **Bank $** — the **actual amount of cash paid**; the amount by which the bank balance falls.
- **Discount revenue $** — a **settlement discount** received from a supplier for paying an amount owed promptly.
- **Wages $** — a special column for wages, which a service business pays frequently. Wages carry **no GST**.
- **GST $** — the **GST paid** on a GST-inclusive payment. GST is **1/11** of any GST-inclusive amount.
- **Sundries $** — the catch-all column for every payment type without its own column: other expenses (rent, advertising, insurance, electricity), **Drawings**, cash purchases of **non-current assets**, **loan** repayments and interest, and **payments to accounts payable**.

GST on payments. When the business pays a GST-inclusive amount for an expense or a non-current asset, the payment is split: the **GST portion = inclusive amount ÷ 11** goes in the GST column (it reduces the GST the business owes the Australian Taxation Office), and the remaining **10/11** — the GST-exclusive cost — goes in Sundries. For example, rent of $660 paid including GST is analysed as $60 GST + $600 rent, because 660 ÷ 11 = 60.

Drawings. When the owner withdraws cash for private use, the payment is recorded in **Sundries** against the **Drawings** account. It is **not an expense** and carries **no GST**, because nothing has been supplied *to the business* — the **accounting entity** assumption keeps the owner's private spending separate from the firm's.

Cash purchase of a non-current asset. A non-current asset (equipment, a vehicle) bought for cash is **capitalised**: its GST-exclusive cost is recorded in Sundries against the asset account, and the GST (1/11 of the price) is recorded in the GST column. A non-current asset is **not an expense** — it provides economic benefit for more than one period, so it appears in the **Balance Sheet**, not the Income Statement.

Loan repayments. Repaying **loan principal** reduces the **Loan** liability (recorded in Sundries); any **loan interest** paid is an expense (also Sundries). **Neither carries GST**, because a loan is an *input-taxed financial supply*, not a taxable supply of goods or services.

Payments to accounts payable and discount revenue. When the business has earlier bought on credit, it owes an **account payable**. Paying that debt reduces the creditor, recorded in Sundries at the **full amount owed**. If the supplier offers a **settlement discount** for prompt payment, the business pays **less cash** than it owes and records the saving as **Discount revenue**. **GST is not adjusted** on a settlement discount. So a $550 debt settled early with a $50 discount is recorded as $500 in Bank, $50 in Discount revenue, and $550 in Sundries (clearing the creditor in full).

Totalling and cross-checking. At the end of the period every money column is **totalled**. Because the amount analysed to Wages, GST and Sundries for each payment is funded by the cash paid plus any discount received, a correctly recorded journal must satisfy the **cross-check**:

Total Bank + Total Discount revenue = Total Wages + Total GST + Total Sundries.

If the two sides are not equal, a figure has been entered in the wrong column or a column has been added incorrectly. The cross-check is a built-in test of **verifiability**.

Worked model. Everly Mobile Mechanics made four payments in February. Wages of $1 200 (EFT 3001) go straight to Wages and Bank. Rent of $660 including GST (EFT 3002) splits into $60 GST and $600 Sundries. The $550 owed to Ace Parts is settled for $500 after a $50 discount (EFT 3003): Bank $500, Discount revenue $50, Sundries $550. The owner's $300 cash drawing (EFT 3004) is Sundries.

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Wages $	GST $	Sundries $
Feb 1	Wages	EFT 3001	1 200		1 200		
Feb 5	Rent expense	EFT 3002	660			60	600
Feb 12	Ace Parts	EFT 3003	500	50			550
Feb 18	Drawings	EFT 3004	300				300
Feb 28	**Totals**		**2 660**	**50**	**1 200**	**60**	**1 450**

The cross-check confirms the journal: Bank $2 660 + Discount revenue $50 = $2 710 = Wages $1 200 + GST $60 + Sundries $1 450.

Ethical considerations. Because the Cash Payments Journal is where an owner's spending is classified, it is also where the **accounting entity** assumption is most easily broken. When the owner draws cash for private use, that payment must be recorded as **Drawings** (a reduction of owner's equity), never disguised as **Wages** or a **Sundry expense**. Recording private drawings as a business expense **understates profit** and overstates expenses, breaching **faithful representation** — the reports would no longer be complete, neutral and free from material error, and users such as a bank, the ATO or a prospective buyer would be misled. It is equally dishonest to claim a **GST credit** in the GST column for a private purchase. Ethical recording keeps the business's performance and the owner's private affairs strictly separate.

Worked examples (scaffolded)

Example 1 — wages, an expense with GST, and drawings

Brightpath Tutoring is a service business. During April it made the following payments. Record them in the Cash Payments Journal and total it.

- Apr 2: Paid wages, $1 800 (EFT 5101).
- Apr 5: Paid April rent, $1 320 including GST (EFT 5102).
- Apr 9: The owner withdrew $600 cash for private use (EFT 5103).
- Apr 14: Paid for advertising, $440 including GST (EFT 5104).
- Apr 20: Paid wages, $1 800 (EFT 5105).

Working	Comment
Apr 2 wages $1 800: Bank $1 800, Wages $1 800.	Wages have their own column and carry no GST.
Apr 5 rent $1 320 incl GST: GST = 1 320 ÷ 11 = $120; rent = $1 200 → Sundries. Bank $1 320.	Split every GST-inclusive payment 1/11 to GST, 10/11 to the cost. Rent has no column, so it goes to Sundries.
Apr 9 drawings $600: Bank $600; Sundries $600 (Drawings).	Cash taken by the owner is Drawings, not an expense, and carries no GST.
Apr 14 advertising $440 incl GST: GST = 440 ÷ 11 = $40; advertising = $400 → Sundries.	The advertising expense is GST-inclusive, so it splits like the rent.
Apr 20 wages $1 800: Bank $1 800, Wages $1 800.	The second fortnight's wages.
Totals & cross-check: Bank $5 960 + Disc $0 = $5 960; Wages $3 600 + GST $160 + Sundries $2 200 = $5 960.	The two sides match, so the journal is arithmetically sound.

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Wages $	GST $	Sundries $
Apr 2	Wages	EFT 5101	1 800		1 800		
Apr 5	Rent expense	EFT 5102	1 320			120	1 200
Apr 9	Drawings	EFT 5103	600				600
Apr 14	Advertising	EFT 5104	440			40	400
Apr 20	Wages	EFT 5105	1 800		1 800		
Apr 30	**Totals**		**5 960**		**3 600**	**160**	**2 200**

Example 2 — a payment to accounts payable with discount, a non-current asset, and a loan repayment

Summit Plumbing Services made the following payments in May. Record them in the Cash Payments Journal and total it.

- May 3: Paid Delta Trade Supplies $1 000 to settle the $1 100 owed, after a $100 settlement discount (EFT 6201).
- May 10: Bought an office computer for $3 300 including GST, paying cash (EFT 6202).
- May 18: Paid wages, $2 100 (EFT 6203).
- May 25: Repaid $1 200 of the loan principal to Horizon Bank (EFT 6204).
- May 28: Paid $300 loan interest to Horizon Bank (EFT 6205).

Working	Comment
May 3 pay Delta: owed $1 100, discount $100 → cash $1 000. Bank $1 000, Discount revenue $100, Sundries $1 100.	The full $1 100 owed is removed from the creditor; the $100 saving is Discount revenue. No GST is adjusted on a settlement discount.
May 10 computer $3 300 incl GST: GST = 3 300 ÷ 11 = $300; equipment $3 000 → Sundries. Bank $3 300.	A computer is a non-current asset (Balance Sheet), not an expense, but it still carries GST on purchase.
May 18 wages $2 100: Bank $2 100, Wages $2 100.	No GST on wages.
May 25 loan principal $1 200: Bank $1 200; Sundries $1 200 (Loan – Horizon Bank).	Repaying principal reduces the loan liability; no GST.
May 28 interest $300: Bank $300; Sundries $300 (Interest expense).	Loan interest is an expense; a loan is a financial supply, so no GST.
Cross-check: Bank $7 900 + Disc $100 = $8 000; Wages $2 100 + GST $300 + Sundries $5 600 = $8 000.	Balanced.

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Wages $	GST $	Sundries $
May 3	Delta Trade Supplies	EFT 6201	1 000	100			1 100
May 10	Office equipment	EFT 6202	3 300			300	3 000
May 18	Wages	EFT 6203	2 100		2 100		
May 25	Loan – Horizon Bank	EFT 6204	1 200				1 200
May 28	Interest expense	EFT 6205	300				300
May 31	**Totals**		**7 900**	**100**	**2 100**	**300**	**5 600**

Worked examples (unscaffolded)

Example 3 — a full month for a service business

Riverbend Consulting made the following payments in June. Prepare the Cash Payments Journal.

- Jun 1: Wages, $2 400 (EFT 7301).
- Jun 4: Rent, $1 980 including GST (EFT 7302).
- Jun 8: Paid Metro Office Supplies $700 to settle $770 owing, after a $70 discount (EFT 7303).
- Jun 12: Owner's drawings, $1 000 cash (EFT 7304).
- Jun 19: Advertising, $660 including GST (EFT 7305).
- Jun 22: Wages, $2 400 (EFT 7306).

The two GST-inclusive expenses split at 1/11: rent gives $180 GST and $1 800 Sundries; advertising gives $60 GST and $600 Sundries. The Metro Office Supplies payment clears the full $770 owed (Sundries) for $700 cash, with $70 Discount revenue. Wages and drawings carry no GST.

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Wages $	GST $	Sundries $
Jun 1	Wages	EFT 7301	2 400		2 400		
Jun 4	Rent expense	EFT 7302	1 980			180	1 800
Jun 8	Metro Office Supplies	EFT 7303	700	70			770
Jun 12	Drawings	EFT 7304	1 000				1 000
Jun 19	Advertising	EFT 7305	660			60	600
Jun 22	Wages	EFT 7306	2 400		2 400		
Jun 30	**Totals**		**9 140**	**70**	**4 800**	**240**	**4 170**

∴ total cash paid is $9 140, and the journal cross-checks: 9 140 + 70 = 9 210 = 4 800 + 240 + 4 170.

Example 4 — a non-current asset, a discount and a loan in one month

Coastline Landscaping made the following payments in July. Prepare the Cash Payments Journal.

- Jul 2: Bought a ride-on mower for $5 500 including GST, cash (EFT 8401).
- Jul 6: Paid Terra Nursery Supplies $2 000 to settle $2 200 owing, after a $200 discount (EFT 8402).
- Jul 15: Wages, $3 000 (EFT 8403).
- Jul 20: Repaid $2 500 of the loan principal to Coastal Credit Union (EFT 8404).
- Jul 27: Insurance, $1 100 including GST (EFT 8405).

The mower is a non-current asset: $500 GST + $5 000 Sundries. Terra Nursery is cleared in full ($2 200 Sundries) for $2 000 cash plus $200 Discount revenue. The loan repayment ($2 500 Sundries) and the insurance ($100 GST + $1 000 Sundries) complete the month.

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Wages $	GST $	Sundries $
Jul 2	Equipment (ride-on mower)	EFT 8401	5 500			500	5 000
Jul 6	Terra Nursery Supplies	EFT 8402	2 000	200			2 200

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Wages $	GST $	Sundries $
Jul 15	Wages	EFT 8403	3 000		3 000		
Jul 20	Loan – Coastal Credit Union	EFT 8404	2 500				2 500
Jul 27	Insurance	EFT 8405	1 100			100	1 000
Jul 31	**Totals**		**14 100**	**200**	**3 000**	**600**	**10 700**

∴ total cash paid is $14 100, and the journal cross-checks: 14 100 + 200 = 14 300 = 3 000 + 600 + 10 700.

Practice questions — scaffolded

Question 1

Meadowview Gardening Services made the following payments in March.

- Mar 1: Wages, $1 500 (EFT 2101).
- Mar 6: Rent, $880 including GST (EFT 2102).
- Mar 13: Owner withdrew $400 cash for private use (EFT 2103).
- Mar 20: Wages, $1 500 (EFT 2104).
- Mar 27: Advertising, $220 including GST (EFT 2105).

a. Prepare the Cash Payments Journal for March, including totals.

b. State the total paid in wages for March.

c. State the amount of GST paid during March.

Question 2

Northshore Electrical Repairs made the following payments in April.

- Apr 2: Paid VoltEx Wholesalers $900 to settle $990 owing, after a $90 discount (EFT 3201).
- Apr 9: Wages, $1 700 (EFT 3202).
- Apr 16: Paid Brightwire Supplies $500 to settle $550 owing, after a $50 discount (EFT 3203).
- Apr 23: Electricity, $330 including GST (EFT 3204).

a. Prepare the Cash Payments Journal for April, including totals.

b. State the total Discount revenue earned during April.

c. Explain why GST is not adjusted when a settlement discount is received.

Question 3

Pinnacle IT Support made the following payments in May.

- May 4: Bought server equipment for $6 600 including GST, cash (EFT 4301).
- May 11: Wages, $2 200 (EFT 4302).
- May 18: Rent, $1 650 including GST (EFT 4303).
- May 25: Owner’s drawings, $800 cash (EFT 4304).

a. Prepare the Cash Payments Journal for May, including totals.

b. State the amount recorded in the Sundries column for the server equipment, and the amount recorded in the GST column for it.

c. Explain why the cost of the server equipment is recorded as an asset in Sundries rather than as an expense.

Question 4

Great Ocean Fitness made the following payments in June.

- Jun 3: Repaid $3 000 of the loan principal to Southbank Finance (EFT 5401).
- Jun 3: Paid $450 loan interest to Southbank Finance (EFT 5402).
- Jun 12: Wages, $1 900 (EFT 5403).
- Jun 18: Owner withdrew $700 cash for private use (EFT 5404).
- Jun 26: Advertising, $1 100 including GST (EFT 5405).

a. Prepare the Cash Payments Journal for June, including totals.

b. State the total recorded in the Sundries column.

c. Explain why no GST is recorded on the loan interest payment.

Question 5

Alpine Veterinary Clinic made the following payments in July.

- Jul 1: Wages, $2 600 (EFT 6501).
- Jul 5: Paid Vetline Supplies $1 200 to settle $1 320 owing, after a $120 discount (EFT 6502).
- Jul 12: Bought a surgical table for $4 400 including GST, cash (EFT 6503).
- Jul 19: Rent, $2 200 including GST (EFT 6504).
- Jul 26: Owner’s drawings, $1 500 cash (EFT 6505).

a. Prepare the Cash Payments Journal for July, including totals.

b. State the total cash paid (the Bank total) for July.

c. Show that the journal cross-checks by demonstrating that Bank + Discount revenue = Wages + GST + Sundries.

Question 6

Harbourview Dental made the following payments in August.

- Aug 2: Wages, $2 000 (EFT 7601).
- Aug 8: Paid Cleardent $600 to settle $660 owing, after a $60 discount (EFT 7602).
- Aug 15: Telephone and internet, $440 including GST (EFT 7603).
- Aug 22: The owner took $900 cash for private use (EFT 7604).

a. Prepare the Cash Payments Journal for August, including totals.

b. State the account reduced by the payment to Cleardent, and the amount by which it is reduced.

c. Using the accounting entity assumption, explain why the $900 taken by the owner is recorded as Drawings and not as Wages.

Practice questions — unscaffolded

Question 7

Fernlea Cleaning Services made the following payments in September: Sep 1 wages $1 600 (EFT 1701); Sep 7 rent $1 100 including GST (EFT 1702); Sep 14 owner’s drawings $500 cash (EFT 1703); Sep 21 advertising $330 including GST (EFT 1704); Sep 28 wages $1 600 (EFT 1705). Prepare the Cash Payments Journal, and state the total wages, the total GST paid and the total cash paid.

Question 8

Cedar Ridge Accounting Services made the following payments in October: Oct 3 paid PaperPlus Wholesale $1 500 to settle $1 650 owing after a $150 discount (EFT 2801); Oct 9 wages $2 300 (EFT 2802); Oct 16 paid TechHire Supplies $700 to settle $770 owing after a $70 discount (EFT 2803); Oct 23 electricity $495 including GST (EFT 2804); Oct 30 owner’s drawings $1 200 cash (EFT 2805). Prepare the Cash Payments Journal, and state the total Discount revenue and the total Sundries.

Question 9

Summit Peak Surveying made the following payments in November: Nov 2 bought a survey drone for $7 700 including GST, cash (EFT 3901); Nov 8 wages $2 800 (EFT 3902); Nov 15 repaid $4 000 of the loan principal to National Trust Bank (EFT 3903); Nov 22 paid $600 loan interest (EFT 3904); Nov 29 owner's drawings $1 000 cash (EFT 3905). Prepare the Cash Payments Journal, and state the total cash paid and the total GST.

Question 10

Blue Gum Landscaping made the following payments in December: Dec 1 wages $2 500 (EFT 4001); Dec 4 paid Greenscape Supplies $1 100 to settle $1 210 owing after a $110 discount (EFT 4002); Dec 9 bought a trailer for $3 300 including GST, cash (EFT 4003); Dec 14 rent $1 320 including GST (EFT 4004); Dec 18 owner's drawings $1 400 cash (EFT 4005); Dec 22 repaid $2 000 of the loan principal to Riverbank Finance (EFT 4006); Dec 24 wages $2 500 (EFT 4007). Prepare the Cash Payments Journal, state every column total, and demonstrate the cross-check.

Question 11

Willow Creek Physiotherapy made the following payments in March: Mar 2 wages $2 100 (Chq 551); Mar 6 rent $2 090 including GST (Chq 552); Mar 13 paid Medisupply $800 to settle $880 owing after an $80 discount (EFT 9001); Mar 20 owner's drawings $600 cash (EFT 9002); Mar 27 bought a treatment bed for $2 200 including GST, cash (EFT 9003). Prepare the Cash Payments Journal and demonstrate the cross-check.

Question 12

Explain why a settlement discount received from a supplier is recorded as **Discount revenue** in the Cash Payments Journal, and state its effect on the amount of cash the business must pay. In your answer, explain why GST is not adjusted when the discount is received.

Question 13

Rosewood Catering Services made the following payments in April: Apr 2 paid Farmfresh Produce $2 000 to settle $2 200 owing after a $200 discount (EFT 1101); Apr 5 paid Kitchenware Direct $1 000 to settle $1 100 owing after a $100 discount (EFT 1102); Apr 9 wages $1 800 (EFT 1103); Apr 14 paid Beverage Wholesalers the full $660 owed, with no discount because the discount period had ended (EFT 1104); Apr 20 gas $385 including GST (EFT 1105). Prepare the Cash Payments Journal, state the total Discount revenue, and explain why the payment to Beverage Wholesalers earned no Discount revenue.

Question 14

The Cash Payments Journal of Lakeshore Marine Services for May has the following column totals: Bank $9 400, Discount revenue $150, Wages $3 200, GST $350. The Sundries total has been smudged and cannot be read. Using the cross-check relationship, calculate the total of the Sundries column, and state the rule you used.

Question 15

Zenith Marketing made the following payments in June: Jun 3 bought a company vehicle for $33 000 including GST, cash (EFT 2201); Jun 10 paid vehicle running costs (fuel and servicing) of $550 including GST (EFT 2202); Jun 17 wages $2 900 (EFT 2203); Jun 24 owner's drawings $2 000 cash (EFT 2204). Prepare the Cash Payments Journal, then explain the different treatment of the $33 000 vehicle purchase and the $550 running costs, and state the effect of each on the business's reports.

Question 16

Terra Firma Engineering made the following payments in July: Jul 1 repaid $5 000 of the loan principal to Ironbark Bank (EFT 3301); Jul 1 paid $750 loan interest to Ironbark Bank (EFT 3302); Jul 10 wages $3 100 (EFT 3303); Jul 18 owner's drawings $1 800 cash (EFT 3304); Jul 25 insurance $770 including GST (EFT 3305). Prepare the Cash Payments Journal, state the total Sundries, and explain why neither the loan principal nor the interest carries GST.

Question 17

Explain what the total of the **GST** column in the Cash Payments Journal represents, and how it affects the amount the business owes to (or is owed by) the Australian Taxation Office. Refer to at least one qualitative characteristic in your answer.

Question 18

Jordan, the owner of Skylark Photography (a service business), regularly uses the business EFT account to pay for private groceries and family holidays, and asks the bookkeeper to record these payments in the Wages column and as "Sundry expenses" so that the business's reported profit — and the tax payable — will be lower. Discuss the ethical and reporting problems with this request, with reference to the accounting entity assumption and the qualitative characteristic of faithful representation. Explain how these payments should be recorded.

Answers

1.
   b. $3 000 c. $100 (totals: Bank $4 500, Wages $3 000, GST $100, Sundries $1 400)
2.
   b. $140 c. see solutions (totals: Bank $3 430, Disc $140, Wages $1 700, GST $30, Sundries $1 840)
3.
   b. Sundries $6 000; GST $600 c. see solutions (totals: Bank $11 250, GST $750, Sundries $8 300)
4.
   b. $5 150 c. see solutions (total Bank $7 150)
5.
   b. $11 900 c. 11 900 + 120 = 12 020 = 2 600 + 600 + 8 820
6.
   b. Accounts payable – Cleardent, reduced by $660 c. see solutions (total Bank $3 940)
7. Wages $3 200; GST $130; cash paid (Bank) $5 130
8. Discount revenue $220; Sundries $4 070 (Bank $6 195)
9. Cash paid (Bank) $16 100; GST $700 (Sundries $12 600)
10. Bank $14 120; Disc $110; Wages $5 000; GST $420; Sundries $8 810; cross-check $14 230 = $14 230
11. Cross-check $7 870 = $7 870 (Bank $7 790; Disc $80; Wages $2 100; GST $390; Sundries $5 380)
12. See solutions
13. Discount revenue $300; Beverage Wholesalers — paid after the discount period (see solutions) (Bank $5 845)
14. Sundries $6 000
15. Vehicle $30 000 (asset) + GST $3 000; running costs $500 (expense) + GST $50 (Bank $38 450)
16. Sundries $8 250; no GST on loan principal or interest (see solutions)
17. See solutions
18. See solutions (discussion)

Fully-worked solutions

Question 1

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Wages $	GST $	Sundries $
Mar 1	Wages	EFT 2101	1 500		1 500		
Mar 6	Rent expense	EFT 2102	880			80	800
Mar 13	Drawings	EFT 2103	400				400
Mar 20	Wages	EFT 2104	1 500		1 500		
Mar 27	Advertising	EFT 2105	220			20	200
Mar 31	**Totals**		**4 500**		**3 000**	**100**	**1 400**

b. Total wages = 1 500 + 1 500 = **$3 000**. c. GST paid = 80 + 20 = **$100**.

Question 2

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Wages $	GST $	Sundries $
Apr 2	VoltEx Wholesalers	EFT 3201	900	90			990
Apr 9	Wages	EFT 3202	1 700		1 700		
Apr 16	Brightwire Supplies	EFT 3203	500	50			550
Apr 23	Electricity	EFT 3204	330			30	300

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Wages $	GST $	Sundries $
Apr 30	**Totals**		**3 430**	**140**	**1 700**	**30**	**1 840**

b. Discount revenue = 90 + 50 = **$140**.

c. A settlement discount is a reduction in the amount paid for prompt settlement of a debt that already existed. The GST on the original credit purchase was recorded **in full** when that purchase was made, so paying the debt early does not change it. Under the study design, GST is **not** recalculated on a settlement discount, so the $140 is recorded gross as Discount revenue and the GST column is untouched.

Question 3

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Wages $	GST $	Sundries $
May 4	Server equipment	EFT 4301	6 600			600	6 000
May 11	Wages	EFT 4302	2 200		2 200		
May 18	Rent expense	EFT 4303	1 650			150	1 500
May 25	Drawings	EFT 4304	800				800
May 31	**Totals**		**11 250**		**2 200**	**750**	**8 300**

b. Server equipment: Sundries **$6 000** (6 600 × 10/11); GST **$600** (6 600 ÷ 11).

c. A non-current asset provides economic benefit to the business for **more than one reporting period**, so its GST-exclusive cost is recorded as an **asset** (in Sundries, against the Server equipment account) and reported in the **Balance Sheet**. It is not written off as an expense; only the asset's consumption (depreciation) becomes an expense, spread across its useful life.

Question 4

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Wages $	GST $	Sundries $
Jun 3	Loan – Southbank Finance	EFT 5401	3 000				3 000
Jun 3	Interest expense	EFT 5402	450				450
Jun 12	Wages	EFT 5403	1 900		1 900		
Jun 18	Drawings	EFT 5404	700				700
Jun 26	Advertising	EFT 5405	1 100			100	1 000
Jun 30	**Totals**		**7 150**		**1 900**	**100**	**5 150**

b. Sundries total = 3 000 + 450 + 700 + 1 000 = **$5 150**.

c. A loan is an **input-taxed financial supply**, not a taxable supply of goods or services. The interest charged on it is the cost of that financial supply, so **no GST** is levied on it and none is recorded.

Question 5

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Wages $	GST $	Sundries $
Jul 1	Wages	EFT 6501	2 600		2 600		
Jul 5	Vetline Supplies	EFT 6502	1 200	120			1 320
Jul 12	Surgical	EFT 6503	4 400			400	4 000

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Wages $	GST $	Sundries $
	table						
Jul 19	Rent expense	EFT 6504	2 200			200	2 000
Jul 26	Drawings	EFT 6505	1 500				1 500
Jul 31	**Totals**		**11 900**	**120**	**2 600**	**600**	**8 820**

b. Total cash paid (Bank) = **$11 900**.

c. Cross-check: Bank + Discount revenue = 11 900 + 120 = **$12 020**; Wages + GST + Sundries = 2 600 + 600 + 8 820 = **$12 020**. The two sides are equal, so the journal cross-checks.

Question 6

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Wages $	GST $	Sundries $
Aug 2	Wages	EFT 7601	2 000		2 000		
Aug 8	Cleardent	EFT 7602	600	60			660
Aug 15	Telephone & internet	EFT 7603	440			40	400
Aug 22	Drawings	EFT 7604	900				900
Aug 31	**Totals**		**3 940**	**60**	**2 000**	**40**	**1 960**

b. The payment reduces the **Accounts payable – Cleardent** account by the **full $660** owed (recorded in Sundries); the $60 saving is Discount revenue.

c. Under the **accounting entity** assumption, the business is a separate entity from its owner. The $900 the owner took is a withdrawal of the owner's own equity for **private** use, so it is recorded as **Drawings** (a reduction of equity). Recording it as **Wages** would treat it as a cost of running the business, overstating expenses and understating profit — a misrepresentation of the entity's performance.

Question 7

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Wages $	GST $	Sundries $
Sep 1	Wages	EFT 1701	1 600		1 600		
Sep 7	Rent expense	EFT 1702	1 100			100	1 000
Sep 14	Drawings	EFT 1703	500				500
Sep 21	Advertising	EFT 1704	330			30	300
Sep 28	Wages	EFT 1705	1 600		1 600		
Sep 30	**Totals**		**5 130**		**3 200**	**130**	**1 800**

Total wages = **$3 200**; total GST paid = **$130**; total cash paid = **$5 130**. Cross-check: 5 130 + 0 = 5 130 = 3 200 + 130 + 1 800.

Question 8

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Wages $	GST $	Sundries $
Oct 3	PaperPlus Wholesale	EFT 2801	1 500	150			1 650
Oct 9	Wages	EFT 2802	2 300		2 300		
Oct 16	TechHire	EFT 2803	700	70			770

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Wages $	GST $	Sundries $
	Supplies						
Oct 23	Electricity	EFT 2804	495			45	450
Oct 30	Drawings	EFT 2805	1 200				1 200
Oct 31	**Totals**		**6 195**	**220**	**2 300**	**45**	**4 070**

Total Discount revenue = 150 + 70 = **$220**; total Sundries = 1 650 + 770 + 450 + 1 200 = **$4 070**. Cross-check: 6 195 + 220 = 6 415 = 2 300 + 45 + 4 070.

Question 9

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Wages $	GST $	Sundries $
Nov 2	Survey drone	EFT 3901	7 700			700	7 000
Nov 8	Wages	EFT 3902	2 800		2 800		
Nov 15	Loan – National Trust Bank	EFT 3903	4 000				4 000
Nov 22	Interest expense	EFT 3904	600				600
Nov 29	Drawings	EFT 3905	1 000				1 000
Nov 30	**Totals**		**16 100**		**2 800**	**700**	**12 600**

Total cash paid = **$16 100**; total GST = **$700** (only the drone carried GST). Cross-check: 16 100 + 0 = 16 100 = 2 800 + 700 + 12 600.

Question 10

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Wages $	GST $	Sundries $
Dec 1	Wages	EFT 4001	2 500		2 500		
Dec 4	Greenscape Supplies	EFT 4002	1 100	110			1 210
Dec 9	Trailer	EFT 4003	3 300			300	3 000
Dec 14	Rent expense	EFT 4004	1 320			120	1 200
Dec 18	Drawings	EFT 4005	1 400				1 400
Dec 22	Loan – Riverbank Finance	EFT 4006	2 000				2 000
Dec 24	Wages	EFT 4007	2 500		2 500		
Dec 31	**Totals**		**14 120**	**110**	**5 000**	**420**	**8 810**

Column totals: Bank **$14 120**, Discount revenue **$110**, Wages **$5 000**, GST **$420**, Sundries **$8 810**. Cross-check: 14 120 + 110 = **$14 230** = 5 000 + 420 + 8 810 = **$14 230**.

Question 11

Date 2027	Details	Chq/EFT	Bank $	Discount revenue $	Wages $	GST $	Sundries $
Mar 2	Wages	Chq 551	2 100		2 100		
Mar 6	Rent expense	Chq 552	2 090			190	1 900
Mar 13	Medisupply	EFT 9001	800	80			880
Mar 20	Drawings	EFT 9002	600				600
Mar 27	Treatment bed	EFT 9003	2 200			200	2 000
Mar 31	**Totals**		**7 790**	**80**	**2 100**	**390**	**5 380**

Cross-check: Bank + Discount revenue = 7 790 + 80 = **$7 870**; Wages + GST + Sundries = 2 100 + 390 + 5 380 = **$7 870**. The journal cross-checks.

Question 12

A settlement discount received reduces the cash the business must pay to settle a debt: on a debt of $X with a discount of $D, the business pays $(X − D) in cash yet clears the full $X owed to the supplier. The $D saved is an inflow of economic benefit that increases owner's equity but does not arise from the firm's main service activity, so it is recorded as **revenue** — **Discount revenue** — in its own column. Its effect is that the Bank (cash paid) is **less** than the amount owed cleared in Sundries, and the difference is exactly the Discount revenue. **GST is not adjusted**, because the GST on the original credit transaction was recorded in full when the purchase was made; a settlement discount for early payment does not change that GST, so no entry is made in the GST column.

Question 13

Date 2027	Details	Chq/EFT	Bank $	Discount revenue $	Wages $	GST $	Sundries $
Apr 2	Farmfresh Produce	EFT 1101	2 000	200			2 200
Apr 5	Kitchenware Direct	EFT 1102	1 000	100			1 100
Apr 9	Wages	EFT 1103	1 800		1 800		
Apr 14	Beverage Wholesalers	EFT 1104	660				660
Apr 20	Gas	EFT 1105	385			35	350
Apr 30	**Totals**		**5 845**	**300**	**1 800**	**35**	**4 310**

Total Discount revenue = 200 + 100 = **$300**. The payment to **Beverage Wholesalers** earned no Discount revenue because it was made **after the supplier's settlement-discount period had ended** — no discount was available, so the business paid the full $660 owed (Bank $660 = Sundries $660) and left the Discount revenue column blank for that row. Cross-check: 5 845 + 300 = 6 145 = 1 800 + 35 + 4 310.

Question 14

The cross-check rule is **Total Bank + Total Discount revenue = Total Wages + Total GST + Total Sundries**. Rearranging for the missing figure:

Sundries = Bank + Discount revenue − Wages − GST = 9 400 + 150 − 3 200 − 350 = **$6 000**.

Question 15

Date 2027	Details	Chq/EFT	Bank $	Discount revenue $	Wages $	GST $	Sundries $
Jun 3	Motor	EFT 2201	33 000			3 000	30 000

Date 2027	Details	Chq/EFT	Bank $	Discount revenue $	Wages $	GST $	Sundries $
	vehicle						
Jun 10	Vehicle running costs	EFT 2202	550			50	500
Jun 17	Wages	EFT 2203	2 900		2 900		
Jun 24	Drawings	EFT 2204	2 000				2 000
Jun 30	**Totals**		**38 450**		**2 900**	**3 050**	**32 500**

The $33 000 vehicle is a **non-current asset**: its GST-exclusive cost of **$30 000** is recorded in Sundries against Motor vehicle and reported as an **asset in the Balance Sheet**, with $3 000 GST in the GST column. The $550 running costs are a **period expense**: **$500** (ex-GST) in Sundries against Vehicle running costs, reported in the **Income Statement**, with $50 GST. So the vehicle purchase **increases assets** and has no immediate effect on profit (only later depreciation will), whereas the running costs **reduce profit** in the current period.

Question 16

Date 2027	Details	Chq/EFT	Bank $	Discount revenue $	Wages $	GST $	Sundries $
Jul 1	Loan – Ironbark Bank	EFT 3301	5 000				5 000
Jul 1	Interest expense	EFT 3302	750				750
Jul 10	Wages	EFT 3303	3 100		3 100		
Jul 18	Drawings	EFT 3304	1 800				1 800
Jul 25	Insurance	EFT 3305	770			70	700
Jul 31	**Totals**		**11 420**		**3 100**	**70**	**8 250**

Total Sundries = 5 000 + 750 + 1 800 + 700 = **$8 250**. Neither the loan-principal repayment nor the interest carries GST: repaying **principal** simply reduces a **liability** (Loan – Ironbark Bank) — no supply of goods or services occurs — and **interest** is the cost of an **input-taxed financial supply** (the loan), which is not subject to GST. Both are recorded in Sundries with the GST column blank.

Question 17

The total of the GST column is the **total GST the business has paid** on its cash payments for the period. This GST paid is an **input tax credit**: it **reduces the amount of GST the business owes the ATO** (or increases a refund), because the business is a **collector** of GST on behalf of the ATO, not the final consumer of the goods and services it buys. Recording it accurately upholds **faithful representation** — the GST liability owed to the ATO is neither overstated nor understated, so it is complete, neutral and free from bias — and supports **relevance**, since a correctly stated GST obligation is decision-useful to the owner managing the business's cash and to the ATO.

Question 18

Under the **accounting entity** assumption, Skylark Photography is a separate accounting entity from its owner, Jordan. Private groceries and family holidays are **Jordan's personal expenses, not the business's**, so they must be recorded as **Drawings** — a reduction of owner's equity, entered in the Sundries column — with **no GST** claimed, because they are private, not business, purchases.

Recording them instead as **Wages** or **Sundry expenses** would deliberately **overstate the business's expenses and understate its profit**. This breaches **faithful representation**: the Income Statement would no longer be complete, neutral or free from material misstatement — it would be **biased** to serve Jordan's private tax interest rather than to report the entity's true performance. Users who rely on the reports — the ATO, a lender, a prospective buyer — would be **misled** about how profitable the business really is.

There are further problems. Understating profit to reduce tax payable is **tax evasion**, which is unlawful; and claiming **GST input credits** on private purchases improperly reduces the GST owed to the ATO. The bookkeeper has a professional and ethical obligation to **refuse** the request, since complying would make the records dishonest and the bookkeeper complicit. The correct treatment is to record every private payment as **Drawings** (Sundries), with no GST, keeping Jordan's private spending strictly separate from the business's expenses so that profit is **faithfully represented**.

Chapter 7 Cash accounting for a service business — 7D The Statement of Receipts and Payments, the Cash Flow Statement, GST and indicators

Theory

A **service business** earns its revenue by providing a service — tutoring, grooming, physiotherapy, plumbing — rather than by buying and selling inventory. Under the cash single-entry system of this chapter, every dollar that flows in or out of the business passes through the **Bank** account and is recorded first in one of two special journals: the **Cash Receipts Journal** (money in) and the **Cash Payments Journal** (money out). Sections 7B and 7C prepared and totalled those journals. In 7D the **column totals become the source data for the cash reports**: the **Statement of Receipts and Payments** and the classified **Cash Flow Statement**.

The Statement of Receipts and Payments. This is the simplest cash report. It lists **every type of cash receipt**, adds them to a **total cash received**, lists **every type of cash payment**, adds them to a **total cash paid**, and reports the difference as the **net increase (or decrease) in cash** for the period. Adding the **Bank balance at the start** gives the **Bank balance at the end**:

Bank at end = Bank at start + total receipts − total payments

Each line in the report is one analysis column of a journal (Fees, GST, Wages, Advertising, Rent, Sundries and so on), so the **total receipts equal the Bank column total of the Cash Receipts Journal** and the **total payments equal the Bank column total of the Cash Payments Journal**. Its title is **"Statement of Receipts and Payments for the <period> ended <date>"**.

The classified Cash Flow Statement. The Statement of Receipts and Payments tells a user *how much* cash moved but not *why*. The **Cash Flow Statement** reports the **same cash flows** but **classifies** them into three activities so the user can see the source of the change:

- **Operating activities** — the cash effects of the business's day-to-day trading: cash **fees**, **interest revenue**, **GST received**, and payments for **wages**, **rent**, **advertising**, **interest expense** and **GST paid**. Interest expense is an operating outflow (it is a recurring expense), even though the loan itself is a financing item.
- **Investing activities** — cash spent acquiring, or received from selling, **non-current assets** (equipment, vehicles). The purchase of equipment for cash is an investing **outflow**.
- **Financing activities** — cash from the owner and from lenders: **capital contributions** and **loans received** (inflows), and **drawings** and **loan (principal) repayments** (outflows).

Each section is subtotalled — **Net cash from Operating activities**, **Net cash used in Investing activities**, **Net cash from Financing activities** — and the three subtotals re-sum to the **net increase or decrease in cash**, which is added to the opening Bank balance to give the **same closing Bank balance** as the Statement of Receipts and Payments. Outflows are shown in **brackets**. Its title is **"Cash Flow Statement for the <period> ended <date>"**. A negative closing balance is a **bank overdraft** (a current liability).

GST and the net GST position. Fees charged to customers carry **10% GST**, which the business **collects** on behalf of the Australian Taxation Office and records in the **GST Clearing** account. GST **paid** on the business's own purchases and expenses (advertising, rent, equipment) is an input tax credit that reduces what is owed. The **net GST position** for the period is:

Net GST = GST collected − GST paid

If GST **collected exceeds GST paid**, the business owes the difference to the ATO — a **GST liability (GST payable)**. If GST **paid exceeds GST collected** — often in a period with a large equipment or vehicle purchase — the ATO owes the business a refund — a **GST asset (GST receivable)**. Note that **wages, drawings, loan receipts and repayments, capital and interest carry no GST**. In the Cash Flow Statement, **GST received and GST paid are both Operating activities**, and a **payment to the ATO to settle the GST owing is also an Operating outflow**; a non-current asset in Investing is therefore shown at its **GST-exclusive** cash cost, with its GST included in Operating GST paid.

A cash-based indicator — Cash Flow Cover. Reports are only useful if they are interpreted. **Cash Flow Cover** measures how many times the net cash generated by trading could meet the business's short-term debts:

Cash Flow Cover = Net cash flow from Operating activities ÷ Average current liabilities

It is expressed as **times per period**. A cover of **2.4 times** means operating cash could cover current liabilities almost two and a half times over; a **higher (faster)** cover indicates stronger short-term liquidity. Because it uses **cash** from operations (not profit), it complements profitability measures and highlights the **distinction between cash and profit** — a business can report a profit yet still run short of cash if too much is tied up in assets, drawings or loan repayments.

Ethical considerations. Because the cash reports are read by outsiders — most importantly a **lender** deciding whether to advance a loan — the owner has an ethical duty to present them **honestly and without bias (faithful representation)**. It would be misleading to dress up the reports so the business looks more cash-generative than it is: for example, classifying a one-off **capital contribution or loan receipt as though it were operating fee income**, omitting **drawings**, or burying a large financing inflow inside an unclassified Statement of Receipts and Payments so the reliance on borrowing is hidden. Such choices give users an inflated view of the cash the business actually generates from its services, may lead a lender to advance funds the business cannot service, and damage the owner's reputation when the true position emerges. Ethical reporting classifies each flow **truthfully** and lets the reader judge the business on its real operating performance.

Worked model. Verdant Mowing (a lawn-care sole trader) has an opening Bank balance of $500 on 1 July. In the week to 7 July it banked cash fees of $2 000 plus $200 GST, and paid wages $900, advertising $200 plus $20 GST, and drawings $300. Total receipts are $2 200 and total payments are $900 + $200 + $20 + $300 = $1 420, a **net increase of $780**, so the Bank balance at 7 July is $500 + $780 = **$1 280**. The net GST position is $200 − $20 = **$180 payable**. In a Cash Flow Statement the drawings ($300) would be reclassified out of the day-to-day flows and into **Financing**, which is exactly the extra information the classified report adds.

Worked examples (scaffolded)

Example 1 — preparing the Statement of Receipts and Payments from the journals

Brightpath Tutoring is a service business owned by N. Farrell. Its Bank balance on 1 June 2025 was $4 200. The June Cash Receipts Journal and Cash Payments Journal, prepared and totalled using the methods of 7B and 7C, were:

Cash Receipts Journal (June 2025)

Date	Details	Rec. No.	Bank $	Fees $	GST $	Sundries $
3 June	Fees	101	9 900	9 000	900	
10 June	Capital – N. Farrell	102	6 000			6 000
15 June	Loan – NorthBank	103	10 000			10 000
24 June	Fees	104	9 900	9 000	900	
30 June	Interest revenue	105	200			200
	Totals		**36 000**	**18 000**	**1 800**	**16 200**

Cash Payments Journal (June 2025)

Date	Details	EFT No.	Bank $	Wages $	Advertising $	Rent $	Sundries $	GST $
2 June	Rent expense	201	2 200			2 000		200
8 June	Advertising	202	1 320		1 200			120
12 June	Equipmen	203	8 800				8 000	800

Date	Details	EFT No.	Bank $	Wages $	Advertising $	Rent $	Sundries $	GST $
	t							
20 June	Wages	204	7 400	7 400				
26 June	Drawings – N. Farrell	205	3 000				3 000	
28 June	Interest expense	206	100				100	
28 June	Loan repayment	207	1 000				1 000	
	Totals		**23 820**	**7 400**	**1 200**	**2 000**	**12 100**	**1 120**

Prepare the Statement of Receipts and Payments for June.

Working	Comment
Each **receipt** line is a Cash Receipts Journal column: Fees $18 000, GST received $1 800, and the Sundries items listed separately — Capital $6 000, Loan $10 000, Interest revenue $200.	The report shows the *type* of each receipt, not one line per entry; the lines add to the Bank column total of $36 000.
Total cash receipts = $36 000 — equal to the Cash Receipts Journal Bank total.	A useful cross-check: total receipts must equal the journal's Bank column.
Each **payment** line is a Cash Payments Journal column: Wages $7 400, Advertising $1 200, Rent $2 000, GST paid $1 120, and the Sundries items — Equipment $8 000, Interest expense $100, Drawings $3 000, Loan repayment $1 000.	Again one line per *type*; the lines add to the Bank column total of $23 820.
Total cash payments = $23 820. Net increase = $36 000 − $23 820 = **$12 180**.	Receipts exceed payments, so cash increased.
Bank at end = $4 200 + $12 180 = **$16 380**.	Opening balance plus the net increase gives the closing Bank balance.

Statement of Receipts and Payments for the month ended 30 June 2025

Brightpath Tutoring	$	$
Cash receipts		
Fees	18 000	
GST received	1 800	
Capital contribution	6 000	
Loan – NorthBank	10 000	
Interest revenue	200	
Total cash receipts		**36 000**
Cash payments		
Wages	7 400	
Advertising	1 200	
Rent expense	2 000	
Equipment	8 000	
Interest expense	100	
Drawings	3 000	

Brightpath Tutoring	$	$
Loan repayment	1 000	
GST paid	1 120	
Total cash payments		**(23 820)**
Net increase in cash		**12 180**
Add: Bank balance at start (1 June)		4 200
Bank balance at end (30 June)		**16 380**

Example 2 — the classified Cash Flow Statement, the GST position and Cash Flow Cover

Using the same June data for Brightpath Tutoring, prepare the classified Cash Flow Statement, determine the net GST position, and calculate Cash Flow Cover given that the owner's records show current liabilities of $3 200 at 1 June and $4 400 at 30 June.

Working	Comment
Operating: in — Cash fees $18 000, GST received $1 800, Interest revenue $200; out — Wages $7 400, Advertising $1 200, Rent $2 000, Interest expense $100, GST paid $1 120.	Day-to-day trading flows. Interest **expense** is operating; GST received and GST paid are operating (including the $800 GST on the equipment).
Net cash from Operating = $20 000 − $11 820 = **$8 180**.	Inflows $20 000 less outflows $11 820.
Investing: Purchase of equipment **($8 000)** — the GST-exclusive cost.	The $800 GST on the equipment sits in Operating GST paid, so Investing shows only the $8 000 asset cost.
Financing: in — Capital $6 000, Loan $10 000; out — Drawings $3 000, Loan repayment $1 000. Net = **$12 000**.	Flows with the owner and the lender (loan principal only — the interest was operating).
Net increase = $8 180 − $8 000 + $12 000 = **$12 180**; Bank at end = $4 200 + $12 180 = **$16 380**.	Same net change and closing balance as the Statement of Receipts and Payments — the two reports reconcile.
GST position = $1 800 collected − $1 120 paid = **$680 payable** (a current liability owing to the ATO).	Collected exceeds paid, so the business owes the ATO.
Cash Flow Cover = $8 180 ÷ [($3 200 + $4 400) ÷ 2] = $8 180 ÷ $3 800 = **2.15 times**.	Operating cash could cover current liabilities about 2.15 times over — a comfortable short-term position.

Cash Flow Statement for the month ended 30 June 2025

Brightpath Tutoring	$	$
Operating activities		
Cash fees	18 000	
GST received	1 800	
Interest revenue	200	
Wages	(7 400)	
Advertising	(1 200)	
Rent expense	(2 000)	
Interest expense	(100)	
GST paid	(1 120)	
Net cash from Operating activities		**8 180**
Investing activities		
Purchase of equipment	(8 000)	

Brightpath Tutoring	$	$
Net cash used in Investing activities		**(8 000)**
Financing activities		
Capital contribution	6 000	
Loan – NorthBank	10 000	
Drawings	(3 000)	
Loan repayment	(1 000)	
Net cash from Financing activities		**12 000**
Net increase in cash		**12 180**
Add: Bank balance at start (1 June)		4 200
Bank balance at end (30 June)		**16 380**

Worked examples (unscaffolded)

Example 3 — a Statement of Receipts and Payments showing a net decrease

Willow Bookkeeping Services (owner J. Ng) had a Bank balance of $2 600 on 1 March 2025. During March the journals recorded: cash fees $9 000 plus $900 GST; a capital contribution of $3 000; wages $4 200; advertising $400 plus $40 GST; rent $1 300 plus $130 GST; the cash purchase of equipment $6 000 plus $600 GST; and drawings $1 500. Prepare the Statement of Receipts and Payments and determine the GST position.

Total receipts = $9 000 + $900 + $3 000 = $12 900. GST paid = $40 + $130 + $600 = $770, so total payments = $4 200 + $400 + $1 300 + $6 000 + $770 + $1 500 = $14 170. Payments exceed receipts, so there is a **net decrease of $1 270**, and the Bank balance falls to $2 600 − $1 270 = $1 330. The GST position is $900 − $770 = $130 payable.

Statement of Receipts and Payments for the month ended 31 March 2025

Willow Bookkeeping Services	$	$
Cash receipts		
Fees	9 000	
GST received	900	
Capital contribution	3 000	
Total cash receipts		**12 900**
Cash payments		
Wages	4 200	
Advertising	400	
Rent expense	1 300	
Equipment	6 000	
GST paid	770	
Drawings	1 500	
Total cash payments		**(14 170)**
Net decrease in cash		**(1 270)**
Add: Bank balance at start (1 March)		2 600
Bank balance at end (31		**1 330**

Willow Bookkeeping Services	$	$
March)		

∴ cash fell by $1 270 to a closing Bank balance of $1 330, and $130 of GST is payable to the ATO.

Example 4 — a classified Cash Flow Statement

Summit Adventure Guides (owner P. Rao) had a Bank balance of $3 800 on 1 April 2025. April's cash flows were: cash fees $17 000 plus $1 700 GST; interest revenue $100; a capital contribution of $5 000; a loan of $4 000 from Coastal Credit Union; wages $7 200; advertising $900 plus $90 GST; rent $1 600 plus $160 GST; interest expense $130; the cash purchase of climbing equipment $9 000 plus $900 GST; drawings $2 400; and a loan repayment of $900. Prepare the classified Cash Flow Statement and determine the GST position.

GST paid = $90 + $160 + $900 = $1 150. Net Operating = ($17 000 + $1 700 + $100) − ($7 200 + $900 + $1 600 + $130 + $1 150) = $18 800 − $10 980 = $7 820. Net Investing = ($9 000). Net Financing = ($5 000 + $4 000) − ($2 400 + $900) = $5 700. Net increase = $7 820 − $9 000 + $5 700 = $4 520, so the Bank balance rises to $3 800 + $4 520 = $8 320. GST position = $1 700 − $1 150 = $550 payable.

Cash Flow Statement for the month ended 30 April 2025

Summit Adventure Guides	$	$
Operating activities		
Cash fees	17 000	
GST received	1 700	
Interest revenue	100	
Wages	(7 200)	
Advertising	(900)	
Rent expense	(1 600)	
Interest expense	(130)	
GST paid	(1 150)	
Net cash from Operating activities		**7 820**
Investing activities		
Purchase of equipment	(9 000)	
Net cash used in Investing activities		**(9 000)**
Financing activities		
Capital contribution	5 000	
Loan – Coastal Credit Union	4 000	
Drawings	(2 400)	
Loan repayment	(900)	
Net cash from Financing activities		**5 700**
Net increase in cash		**4 520**
Add: Bank balance at start (1 April)		3 800
Bank balance at end (30 April)		**8 320**

∴ cash increased by $4 520 to a closing Bank balance of $8 320, and $550 of GST is payable to the ATO.

Practice questions — scaffolded

Question 1

Sunrise Cleaning (owner M. Diaz) had a Bank balance of $3 000 on 1 May 2025. The May journals recorded: cash fees $12 000 plus $1 200 GST; a capital contribution of $5 000; wages $5 000; advertising $800 plus $80 GST; rent $1 500 plus $150 GST; and drawings $2 000.

a. Prepare the Statement of Receipts and Payments for the month ended 31 May 2025.
b. State the Bank balance at 31 May.
c. Determine the net GST position and state whether it is payable or receivable.

Question 2

Peak Physio (owner L. Owens) had a Bank balance of $2 500 on 1 June 2025. June's cash flows were: cash fees $20 000 plus $2 000 GST; a capital contribution of $8 000; a loan of $5 000 from MetroBank; wages $9 000; rent $3 000 plus $300 GST; advertising $1 000 plus $100 GST; the cash purchase of equipment $6 000 plus $600 GST; and drawings $4 000.

a. Classify each cash flow as an Operating, Investing or Financing activity.
b. Calculate the net cash flow from Operating activities.
c. Prepare the classified Cash Flow Statement for the month ended 30 June 2025.

Question 3

For the month ended 31 July 2025, Crisp Gardens totalled its journals and found GST collected of $950 (in the Cash Receipts Journal) and GST paid of $1 260 (in the Cash Payments Journal), the higher GST paid reflecting the cash purchase of a ride-on mower.

a. Determine the net GST position and state whether GST is payable to, or receivable from, the ATO.
b. Explain in one sentence why the business is in this GST position for July.
c. State the section of the Cash Flow Statement in which GST received and GST paid are reported.

Question 4

Bright Sparks Electrical Services (owner T. Blackwood) had a Bank balance of $1 800 on 1 August 2025. August's cash flows were: cash fees $16 000 plus $1 600 GST; interest revenue $100; a capital contribution of $4 000; wages $6 500; advertising $900 plus $90 GST; rent $1 800 plus $180 GST; interest expense $150; the cash purchase of a vehicle $5 000 plus $500 GST; drawings $2 500; and a loan repayment of $800.

a. Prepare the classified Cash Flow Statement for the month ended 31 August 2025.
b. Show that the closing Bank balance equals the opening balance plus the net change in cash.
c. The bookkeeper classified the interest expense as a Financing outflow. State the correct classification and explain in one sentence why it belongs there.

Question 5

Motion Physiotherapy is reviewing its liquidity. For the month ended 30 September 2025 its operating cash flows were: cash fees $14 000 plus $1 400 GST; interest revenue $300; wages $4 800; rent $1 500 plus $150 GST; advertising $400 plus $40 GST; and interest expense $210. Average current liabilities for the month were $4 300. In the previous month Cash Flow Cover was 1.6 times.

a. Calculate the net cash flow from Operating activities.
b. Calculate Cash Flow Cover for September (to two decimal places).

c. State whether the trend from 1.6 to the September figure is favourable, and state one limitation of relying on Cash Flow Cover alone.

Question 6

QuickFix Plumbing Services (owner R. Okafor) had a Bank balance of $900 on 1 September 2025. September's cash flows were: cash fees $11 000 plus $1 100 GST; a loan of $6 000 from Riverbank; wages $4 500; advertising $600 plus $60 GST; rent $1 400 plus $140 GST; the cash purchase of equipment $7 000 plus $700 GST; drawings $1 800; and a loan repayment of $500.

a. Prepare the Statement of Receipts and Payments for the month ended 30 September 2025.

b. State the net increase in cash and the Bank balance at 30 September.

c. Distinguish, in one sentence, between the Statement of Receipts and Payments and the classified Cash Flow Statement.

Practice questions — unscaffolded

Question 7

Harbourside Dog Grooming (owner S. Petrov) had a Bank balance of $2 200 on 1 October 2025. October's cash flows were: cash fees $15 000 plus $1 500 GST; interest revenue $150; a capital contribution of $5 000; wages $6 000; advertising $700 plus $70 GST; rent $1 600 plus $160 GST; interest expense $90; the cash purchase of equipment $4 000 plus $400 GST; drawings $2 200; and a loan repayment of $700. Prepare the classified Cash Flow Statement for the month ended 31 October 2025 and confirm the closing Bank balance.

Question 8

GreenThumb Landscaping (owner F. Adeyemi) had a Bank balance of $3 400 on 1 November 2025. November's cash flows were: cash fees $8 000 plus $800 GST; a loan of $12 000 from GreenBank; wages $3 800; advertising $500 plus $50 GST; rent $1 200 plus $120 GST; the cash purchase of a vehicle $14 000 plus $1 400 GST; and drawings $1 500. Prepare the Statement of Receipts and Payments for the month ended 30 November 2025 and determine the net GST position.

Question 9

Clearview Window Cleaning is preparing its Cash Flow Statement. For each of the following, state the activity classification (Operating, Investing or Financing) and whether it is an inflow or an outflow: (i) cash fees received; (ii) wages paid; (iii) GST paid to the ATO to settle the quarter's BAS; (iv) the cash purchase of a pressure washer; (v) a capital contribution by the owner; (vi) a loan received from the bank; (vii) drawings by the owner; (viii) interest expense paid; (ix) cash proceeds from selling old equipment; (x) a loan principal repayment; (xi) interest revenue received; (xii) advertising paid.

Question 10

Rapid Courier Services (owner D. Mwangi) had a Bank balance of $5 000 on 1 December 2025. December's cash flows were: cash fees $22 000 plus $2 200 GST; interest revenue $180; a loan of $5 000 from CityBank; wages $8 000; advertising $1 000 plus $100 GST; rent $2 000 plus $200 GST; interest expense $250; the cash purchase of equipment $7 000 plus $700 GST; drawings $3 000; and a loan repayment of $1 000. Prepare the classified Cash Flow Statement for the month ended 31 December 2025.

Question 11

Study Buddy Tutoring had a Bank balance of $1 500 at the start of the period and $4 200 at the end. For the period its net cash from Operating activities was $6 200 and its net cash used in Investing activities was $5 000. Within Financing activities the only outflows were drawings of $2 500 and a loan repayment of $1 000. Using cash flow reconstruction, calculate the capital contribution made during the period.

Question 12

For the quarter ended 31 December 2025, Harmony Music Tuition recorded GST collected on fees of $2 400 and GST paid on its purchases and expenses of $1 500. During the quarter it also paid the ATO $1 900 to settle the GST owing from the previous quarter. Determine the net GST position arising from this quarter's trading, and state the Cash Flow Statement classification of GST received, GST paid, and the $1 900 settlement payment to the ATO.

Question 13

Coastal Surf School (owner B. Nguyen) had a Bank balance of $2 000 on 1 January 2026. January's cash flows were: cash fees $13 000 plus $1 300 GST; a capital contribution of $4 000; a loan of $3 000 from Bayside Finance; wages $5 500; advertising $800 plus $80 GST; rent $1 700 plus $170 GST; interest expense $120; the cash purchase of equipment $5 000 plus $500 GST; drawings $1 900; and a loan repayment of $600. Prepare **both** the Statement of Receipts and Payments and the classified Cash Flow Statement for the month ended 31 January 2026, and confirm that both reconcile to the same closing Bank balance.

Question 14

FitLife Personal Training reports the following: in the period just ended, net cash from Operating activities of $8 400 and average current liabilities of $4 200; in the previous period, net cash from Operating activities of $6 000 and average current liabilities of $5 000. Calculate Cash Flow Cover for each period, describe the trend, and discuss what the change suggests about the business's ability to meet its short-term obligations, noting one limitation of the indicator.

Question 15

Aerial Drone Surveys (owner K. Sato) had a Bank balance of $9 000 on 1 February 2026. February's cash flows were: cash fees $10 000 plus $1 000 GST; wages $4 000; rent $1 500 plus $150 GST; advertising $300 plus $30 GST; the cash purchase of drone equipment $18 000 plus $1 800 GST; a loan of $6 000 from Skyline Finance; and drawings $1 500. Prepare the classified Cash Flow Statement for the month ended 28 February 2026, and interpret what has happened to the business's cash position.

Question 16

A service business reports a net increase in cash of $15 000 for the year. Its classified Cash Flow Statement shows net cash from Operating activities of $2 000, net cash used in Investing activities of $1 000, and net cash from Financing activities of $14 000 (a $12 000 loan and a $5 000 capital contribution, less $3 000 drawings). Discuss what the classified report reveals that the unclassified Statement of Receipts and Payments would hide, and explain why this matters to a user assessing the business.

Question 17

Explain, with reference to a relevant qualitative characteristic, why the classified Cash Flow Statement is more useful than the Statement of Receipts and Payments for a lender assessing whether a service business can generate enough cash from its operations to repay a loan.

Question 18

Otway Tree Services is applying to NorthBank for a $40 000 loan. Preparing the cash reports for the application, the owner is considering (a) recording a $10 000 capital contribution she made during the year within "Fees" so that operating cash looks higher, and (b) leaving her $18 000 of drawings out of the Statement of Receipts and Payments altogether. Discuss the ethical considerations involved and the financial implications of these choices for the reports and for the lender, referring to relevant qualitative characteristics.

Answers

1.
    b. $11 670 c. $970 payable
2.
    b. $8 000 (net Investing ($6 000), net Financing $9 000; closing Bank $13 500)
3.
    a. $310 receivable c. Operating activities
4. Net Operating $7 580; net Investing ($5 000); net Financing $700; closing Bank $5 080 c. Operating
5.
    a. $8 600 b. 2.00 times c. Favourable (faster)
6.
    b. Net increase $1 400; Bank $2 300
7. Net Operating $7 630; net Investing ($4 000); net Financing $2 100; closing Bank $7 930
8. Net decrease ($1 770); closing Bank $1 630; GST $770 receivable
9. See solutions (classification key)
10. Net Operating $12 130; net Investing ($7 000); net Financing $1 000; closing Bank $11 130
11. Capital contribution $5 000
12. $900 payable; GST received, GST paid and the $1 900 settlement are all Operating
13. Net increase $4 930; closing Bank $6 930 (both reports)
14. This period 2.00 times; previous 1.20 times — favourable (faster)
15. Net decrease ($10 280); closing Bank ($1 280) — a bank overdraft
16. See solutions
17. See solutions
18. See solutions

Fully-worked solutions

Question 1

Total receipts = $12 000 + $1 200 + $5 000 = $18 200. GST paid = $80 + $150 = $230, so total payments = $5 000 + $800 + $1 500 + $230 + $2 000 = $9 530.

Statement of Receipts and Payments for the month ended 31 May 2025

Sunrise Cleaning	$	$
Cash receipts		
Fees	12 000	
GST received	1 200	
Capital contribution	5 000	
Total cash receipts		**18 200**
Cash payments		
Wages	5 000	
Advertising	800	
Rent expense	1 500	
GST paid	230	
Drawings	2 000	
Total cash payments		**(9 530)**
Net increase in cash		**8 670**
Add: Bank balance at start (1 May)		3 000

Sunrise Cleaning	$	$
Bank balance at end (31 May)		**11 670**

b. Bank at 31 May = **$11 670**. c. GST = $1 200 − $230 = **$970 payable** (collected exceeds paid).

Question 2

a. Cash fees, GST received, wages, rent, advertising and GST paid are **Operating**; the purchase of equipment is **Investing**; the capital contribution, the loan and drawings are **Financing**.

b. GST paid = $300 + $100 + $600 = $1 000. Net Operating = ($20 000 + $2 000) − ($9 000 + $3 000 + $1 000 + $1 000) = $22 000 − $14 000 = **$8 000**.

Cash Flow Statement for the month ended 30 June 2025

Peak Physio	$	$
Operating activities		
Cash fees	20 000	
GST received	2 000	
Wages	(9 000)	
Rent expense	(3 000)	
Advertising	(1 000)	
GST paid	(1 000)	
Net cash from Operating activities		**8 000**
Investing activities		
Purchase of equipment	(6 000)	
Net cash used in Investing activities		**(6 000)**
Financing activities		
Capital contribution	8 000	
Loan – MetroBank	5 000	
Drawings	(4 000)	
Net cash from Financing activities		**9 000**
Net increase in cash		**11 000**
Add: Bank balance at start (1 June)		2 500
Bank balance at end (30 June)		**13 500**

Question 3

a. Net GST = $950 collected − $1 260 paid = **$310 receivable** — the ATO owes the business, because GST paid exceeded GST collected.

b. The large GST paid on the cash purchase of the ride-on mower pushed total GST paid above the GST collected on fees, leaving the business entitled to a refund.

c. GST received and GST paid are reported under **Operating activities**.

Question 4

a. GST paid = $90 + $180 + $500 = $770. Net Operating = ($16 000 + $1 600 + $100) − ($6 500 + $900

- $1 800 + $150 + $770) = $17 700 − $10 120 = $7 580. Net Investing = ($5 000). Net Financing = $4 000 − ($2 500 + $800) = $700.

Cash Flow Statement for the month ended 31 August 2025

Bright Sparks Electrical Services	$	$
Operating activities		
Cash fees	16 000	
GST received	1 600	
Interest revenue	100	
Wages	(6 500)	
Advertising	(900)	
Rent expense	(1 800)	
Interest expense	(150)	
GST paid	(770)	
Net cash from Operating activities		**7 580**
Investing activities		
Purchase of vehicle	(5 000)	
Net cash used in Investing activities		**(5 000)**
Financing activities		
Capital contribution	4 000	
Drawings	(2 500)	
Loan repayment	(800)	
Net cash from Financing activities		**700**
Net increase in cash		**3 280**
Add: Bank balance at start (1 August)		1 800
Bank balance at end (31 August)		**5 080**

b. Net change = $7 580 − $5 000 + $700 = $3 280. Opening $1 800 + $3 280 = **$5 080** = closing Bank balance. ✓

c. The interest expense should be classified as an **Operating** activity, because it is a recurring cost of running the business; only the **repayment of the loan principal** is a Financing outflow.

Question 5

a. GST paid = $150 + $40 = $190. Net Operating = ($14 000 + $1 400 + $300) − ($4 800 + $1 500 + $400 + $210 + $190) = $15 700 − $7 100 = **$8 600**.

b. Cash Flow Cover = $8 600 ÷ $4 300 = **2.00 times**.

c. The trend from 1.6 to 2.00 times is **favourable** (a faster cover): operating cash now covers current liabilities twice over, improving short-term liquidity. **Limitation:** Cash Flow Cover uses an *average* of current liabilities and a single period's operating cash, so it can mask timing problems within the period (for example a large payment falling due before the cash is received) and should be read alongside other liquidity indicators and the Cash Flow Statement itself.

Question 6

Total receipts = $11 000 + $1 100 + $6 000 = $18 100. GST paid = $60 + $140 + $700 = $900, so total payments = $4 500 + $600 + $1 400 + $7 000 + $900 + $1 800 + $500 = $16 700.

Statement of Receipts and Payments for the month ended 30 September 2025

QuickFix Plumbing Services	$	$
Cash receipts		
Fees	11 000	
GST received	1 100	
Loan – Riverbank	6 000	
Total cash receipts		**18 100**
Cash payments		
Wages	4 500	
Advertising	600	
Rent expense	1 400	
Equipment	7 000	
GST paid	900	
Drawings	1 800	
Loan repayment	500	
Total cash payments		**(16 700)**
Net increase in cash		**1 400**
Add: Bank balance at start (1 September)		900
Bank balance at end (30 September)		**2 300**

b. Net increase = **$1 400**; Bank balance at 30 September = **$2 300**.

c. The **Statement of Receipts and Payments** simply lists all cash received and all cash paid to reconcile the opening and closing Bank balances, whereas the **classified Cash Flow Statement** groups the same flows into Operating, Investing and Financing activities to show *why* the cash balance changed.

Question 7

GST paid = $70 + $160 + $400 = $630. Net Operating = ($15 000 + $1 500 + $150) − ($6 000 + $700 + $1 600 + $90 + $630) = $16 650 − $9 020 = $7 630. Net Investing = ($4 000). Net Financing = $5 000 − ($2 200 + $700) = $2 100.

Cash Flow Statement for the month ended 31 October 2025

Harbourside Dog Grooming	$	$
Operating activities		
Cash fees	15 000	
GST received	1 500	
Interest revenue	150	
Wages	(6 000)	
Advertising	(700)	
Rent expense	(1 600)	
Interest expense	(90)	
GST paid	(630)	

Harbourside Dog Grooming	$	$
Net cash from Operating activities		**7 630**
Investing activities		
Purchase of equipment	(4 000)	
Net cash used in Investing activities		**(4 000)**
Financing activities		
Capital contribution	5 000	
Drawings	(2 200)	
Loan repayment	(700)	
Net cash from Financing activities		**2 100**
Net increase in cash		**5 730**
Add: Bank balance at start (1 October)		2 200
Bank balance at end (31 October)		**7 930**

Net increase = $7 630 − $4 000 + $2 100 = $5 730; closing Bank = $2 200 + $5 730 = **$7 930**. ✓

Question 8

Total receipts = $8 000 + $800 + $12 000 = $20 800. GST paid = $50 + $120 + $1 400 = $1 570, so total payments = $3 800 + $500 + $1 200 + $14 000 + $1 570 + $1 500 = $22 570.

Statement of Receipts and Payments for the month ended 30 November 2025

GreenThumb Landscaping	$	$
Cash receipts		
Fees	8 000	
GST received	800	
Loan – GreenBank	12 000	
Total cash receipts		**20 800**
Cash payments		
Wages	3 800	
Advertising	500	
Rent expense	1 200	
Vehicle	14 000	
GST paid	1 570	
Drawings	1 500	
Total cash payments		**(22 570)**
Net decrease in cash		**(1 770)**
Add: Bank balance at start (1 November)		3 400
Bank balance at end (30 November)		**1 630**

Net GST = \$800 collected − \$1 570 paid = **\$770 receivable** — the GST paid on the cash purchase of the vehicle exceeded the GST collected on fees, so the ATO owes the business a refund.

Question 9

Item	Activity	Inflow / outflow
(i) Cash fees received	Operating	Inflow
(ii) Wages paid	Operating	Outflow
(iii) GST paid to the ATO (BAS)	Operating	Outflow
(iv) Cash purchase of a pressure washer	Investing	Outflow
(v) Capital contribution	Financing	Inflow
(vi) Loan received	Financing	Inflow
(vii) Drawings	Financing	Outflow
(viii) Interest expense paid	Operating	Outflow
(ix) Cash proceeds from selling old equipment	Investing	Inflow
(x) Loan principal repayment	Financing	Outflow
(xi) Interest revenue received	Operating	Inflow
(xii) Advertising paid	Operating	Outflow

Question 10

GST paid = \$100 + \$200 + \$700 = \$1 000. Net Operating = (\$22 000 + \$2 200 + \$180) − (\$8 000 + \$1 000 + \$2 000 + \$250 + \$1 000) = \$24 380 − \$12 250 = \$12 130. Net Investing = (\$7 000). Net Financing = \$5 000 − (\$3 000 + \$1 000) = \$1 000.

Cash Flow Statement for the month ended 31 December 2025

Rapid Courier Services	\$	\$
Operating activities		
Cash fees	22 000	
GST received	2 200	
Interest revenue	180	
Wages	(8 000)	
Advertising	(1 000)	
Rent expense	(2 000)	
Interest expense	(250)	
GST paid	(1 000)	
Net cash from Operating activities		**12 130**
Investing activities		
Purchase of equipment	(7 000)	
Net cash used in Investing activities		**(7 000)**
Financing activities		
Loan – CityBank	5 000	

Rapid Courier Services	$	$
Drawings	(3 000)	
Loan repayment	(1 000)	
Net cash from Financing activities		**1 000**
Net increase in cash		**6 130**
Add: Bank balance at start (1 December)		5 000
Bank balance at end (31 December)		**11 130**

Question 11

Net change in cash = $4 200 − $1 500 = $2 700. Since net change = net Operating + net Investing + net Financing, the net Financing flow = $2 700 − $6 200 − (−$5 000) = $1 500. Financing inflows less outflows = $1 500, and the only outflows were drawings $2 500 and the loan repayment $1 000, so:

Capital contribution = net Financing + drawings + loan repayment = $1 500 + $2 500 + $1 000 = **$5 000**.

Question 12

Net GST from this quarter's trading = $2 400 collected − $1 500 paid = **$900 payable** to the ATO. In the Cash Flow Statement, **GST received**, **GST paid** and the **$1 900 settlement payment to the ATO** are **all classified as Operating activities** — the settlement discharges a liability that arose from the operating GST cycle, not a financing or investing transaction.

Question 13

GST paid = $80 + $170 + $500 = $750. Total receipts = $13 000 + $1 300 + $4 000 + $3 000 = $21 300. Total payments = $5 500 + $800 + $1 700 + $120 + $750 + $5 000 + $1 900 + $600 = $16 370.

Statement of Receipts and Payments for the month ended 31 January 2026

Coastal Surf School	$	$
Cash receipts		
Fees	13 000	
GST received	1 300	
Capital contribution	4 000	
Loan – Bayside Finance	3 000	
Total cash receipts		**21 300**
Cash payments		
Wages	5 500	
Advertising	800	
Rent expense	1 700	
Interest expense	120	
GST paid	750	
Equipment	5 000	
Drawings	1 900	
Loan repayment	600	
Total cash payments		**(16 370)**
Net increase in cash		**4 930**
Add: Bank balance at start		2 000

Coastal Surf School	$	$
(1 January)		
Bank balance at end (31 January)		**6 930**

Cash Flow Statement for the month ended 31 January 2026

Coastal Surf School	$	$
Operating activities		
Cash fees	13 000	
GST received	1 300	
Wages	(5 500)	
Advertising	(800)	
Rent expense	(1 700)	
Interest expense	(120)	
GST paid	(750)	
Net cash from Operating activities		**5 430**
Investing activities		
Purchase of equipment	(5 000)	
Net cash used in Investing activities		**(5 000)**
Financing activities		
Capital contribution	4 000	
Loan – Bayside Finance	3 000	
Drawings	(1 900)	
Loan repayment	(600)	
Net cash from Financing activities		**4 500**
Net increase in cash		**4 930**
Add: Bank balance at start (1 January)		2 000
Bank balance at end (31 January)		**6 930**

Both reports reconcile to a closing Bank balance of **$6 930**: the Statement of Receipts and Payments reaches it directly ($21 300 − $16 370 = $4 930 net increase), and the Cash Flow Statement reaches it by summing the three activities ($5 430 − $5 000 + $4 500 = $4 930). ✓

Question 14

Cash Flow Cover = net cash from Operating activities ÷ average current liabilities.

- Previous period: $6 000 ÷ $5 000 = **1.20 times**.
- Period just ended: $8 400 ÷ $4 200 = **2.00 times**.

The cover has risen from 1.20 to 2.00 times — a **favourable (faster)** trend, driven both by stronger operating cash ($6 000 → $8 400) and by lower average current liabilities ($5 000 → $4 200). This suggests the business is now much better placed to meet its short-term obligations from the cash its operations generate, roughly twice over. **Limitation:** the indicator relies on an *average* of current liabilities and one period's operating cash, so it can hide timing mismatches during the period and gives no information about the size or due dates of individual debts; it should be read alongside the Cash Flow Statement and other liquidity indicators before drawing firm conclusions.

Question 15

GST paid = $150 + $30 + $1 800 = $1 980. Net Operating = ($10 000 + $1 000) − ($4 000 + $1 500 + $300 + $1 980) = $11 000 − $7 780 = $3 220. Net Investing = ($18 000). Net Financing = $6 000 − $1 500 = $4 500.

Cash Flow Statement for the month ended 28 February 2026

Aerial Drone Surveys	$	$
Operating activities		
Cash fees	10 000	
GST received	1 000	
Wages	(4 000)	
Rent expense	(1 500)	
Advertising	(300)	
GST paid	(1 980)	
Net cash from Operating activities		**3 220**
Investing activities		
Purchase of drone equipment	(18 000)	
Net cash used in Investing activities		**(18 000)**
Financing activities		
Loan – Skyline Finance	6 000	
Drawings	(1 500)	
Net cash from Financing activities		**4 500**
Net decrease in cash		**(10 280)**
Add: Bank balance at start (1 February)		9 000
Bank balance at end (28 February)		**(1 280)**

Interpretation: although the business generated a positive operating cash flow of $3 220, the very large $18 000 investment in drone equipment — only partly financed by the $6 000 loan — drained cash, producing a net decrease of $10 280. The Bank balance has moved from $9 000 in funds to a **$1 280 overdraft** (a current liability). The month's operating performance was sound, but the scale and timing of the equipment purchase relative to the finance raised left the business temporarily overdrawn.

Question 16

The unclassified Statement of Receipts and Payments would report only the headline **net increase in cash of $15 000**, implying a strongly cash-generative business. The classified Cash Flow Statement reveals a very different picture: **only $2 000** of that increase came from **operating** activities, while **$14 000** came from **financing** — a $12 000 loan and a $5 000 capital contribution (less $3 000 drawings). In other words, the business's own trading barely generated cash; the cash rise is almost entirely borrowed and contributed money. This matters to a user (such as a lender or the owner) because financing inflows are **one-off and must eventually be repaid or serviced**, whereas operating cash is **recurring and sustainable**. Classifying the flows gives the report **relevance** for decision-making — it shows the business is reliant on external funding rather than self-sustaining, a warning the headline cash figure alone would hide.

Question 17

The classified Cash Flow Statement separates the recurring cash generated by the business's services (**Operating** activities) from one-off **Investing** and **Financing** flows, so a lender can see directly whether **operations** produce enough cash to service and repay a loan — rather than the business merely looking cash-rich because it has borrowed or the owner has injected capital. This makes the classified report more **relevant** (and, through its clear structure, more **understandable**) for the lender's decision: it presents the information that bears on the business's genuine capacity to generate cash, which the undifferentiated total of the Statement of Receipts and Payments does not isolate.

Question 18

Both proposals would make the reports **misleading** and breach the owner's ethical obligation to present information that is a **faithful representation** — complete, neutral and free from bias. Recording the $10 000 capital contribution within "Fees" **overstates operating cash** and disguises an owner contribution as revenue from services; leaving out the $18 000 of drawings **understates the cash withdrawn** and inflates the apparent cash the business retains. Together they present a business that generates far more sustainable cash from operations than it really does. The **financial implications** are serious: the reports would carry inflated operating cash and a distorted net cash position, so the **relevance** of the information for the lender's decision is destroyed. Acting on the misstated reports, NorthBank may approve a $40 000 loan the business cannot in fact service from its true operating cash, exposing both the lender and the owner to loss, and — once the misrepresentation is discovered — damaging the owner's reputation and future access to finance. The ethical course is to classify the capital contribution and the drawings **truthfully in Financing**, and let the lender assess the business on its real operating performance.