Accounting Units 3 & 4

Chapter 4 Cash transactions, the GST and the General Journal

Aboriginal and Torres Strait Islander content has been excluded as accuracy cannot be guaranteed, and it is better to be respectful than cover the entire curriculum inaccurately.

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Theory

Before a business records any transaction it must have **evidence** that the transaction actually happened. That evidence is a **source document** — the original record, on paper or generated electronically, that provides the **details** of a transaction (the date, the amount, the parties involved and what was exchanged). Every entry a business makes in its accounting records must be supported by a source document, so that the records are a **faithful representation** of real events rather than someone's guess or opinion.

Source documents are the reason accounting information can satisfy the qualitative characteristic of **verifiability**: because a document exists, a different, independent person — an auditor, the owner, or the Australian Taxation Office — could examine that same document and arrive at the **same figures**. Without a source document, a transaction cannot be verified, and the information recorded from it could not be relied upon.

Cash transactions and the documents that evidence them. A **cash transaction** is any transaction that immediately increases or decreases the business's **bank** account — money received or money paid, whether by electronic transfer or over the counter. This chapter records cash transactions, so the source documents below are the ones that evidence them:

Source document	Evidences (the transaction)	What it verifies
EFT receipt	Cash **received** electronically into the bank account (e.g. a customer paying for a cash sale)	the amount, date and payer of money received
Cash receipt	Cash **received** over the counter, and issued by the business to the payer	the amount and date of cash received, and its source
Sales invoice (tax invoice)	A **sale** of goods or services and the **GST** charged on it	the items, the GST-exclusive price, the GST and the total
EFT payment	Cash **paid** electronically out of the bank account (e.g. paying an expense)	the amount, date and payee of money paid
Receipt	Cash **paid**, and received by the business as proof of its payment	that a payment was made, and its amount and date
Bank statement	Amounts processed **directly by the bank** (interest, account fees, dishonours)	the bank balance and transactions not evidenced by any other document

Notice the pattern. An **EFT** (Electronic Funds Transfer) moves money through the banking system: an **EFT receipt** is the business's evidence that money came **in**, and an **EFT payment** is its evidence that money went **out**. A **receipt** can be issued (when the business receives money) or received (when the business pays money and is given proof) — the direction of the cash tells you which. A **sales invoice** does a different job again: it evidences the **sale itself** and, crucially, sets out the **GST**, so it is the document a business relies on to record how much GST a transaction involved. Some of these documents the business **issues** itself (its own sales invoice, its own cash receipt); others it **receives** from the other party to the transaction (a supplier's tax invoice, or the receipt it is given when it pays). The **bank statement** belongs to neither group: it is the only one generated by the **bank** rather than by either party to the sale or purchase, and it is the source document for items the business would otherwise not know about, such as **interest** the bank has paid or **account-keeping fees** it has charged.

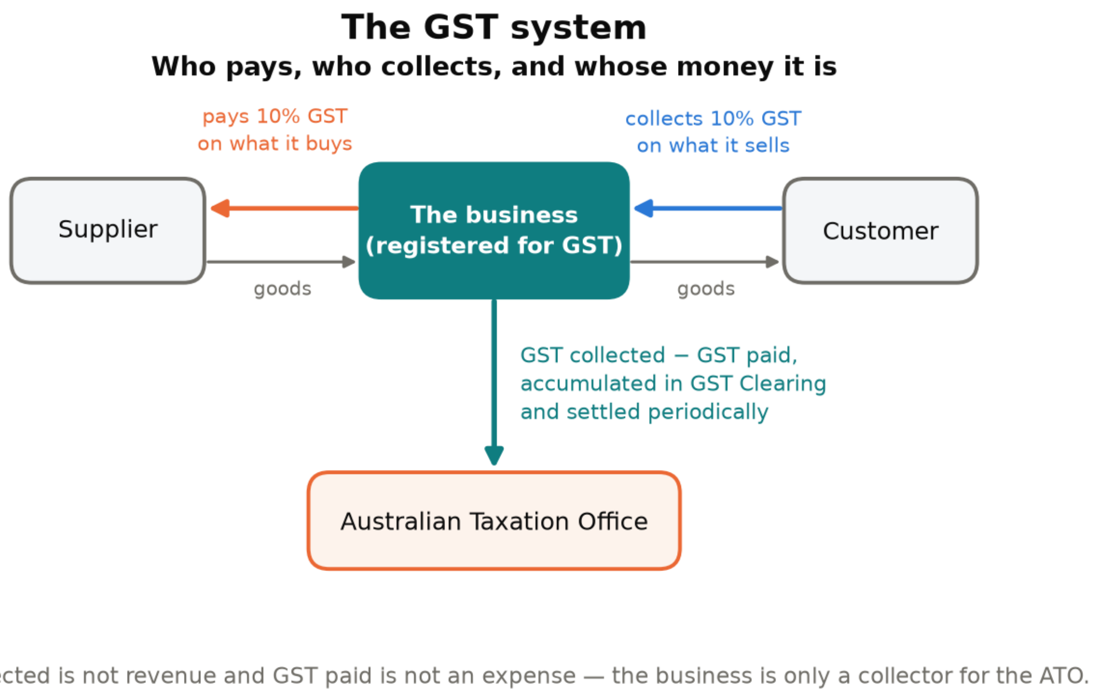
A document for transactions that are not cash transactions. Not every transaction involves cash, and not every one involves an outside party. When the owner contributes an asset to the business, or takes inventory home for private use, no money moves through the bank and no outside party issues anything, so the business prepares its own **internal** source document — a **memo** (memorandum), authorised inside the business. No memo is needed for the cash transactions recorded in this chapter, so the memo is developed with non-cash transactions in Chapter 7.

The GST system. The **Goods and Services Tax (GST)** is a tax of **10%** added to the price of most goods and services sold in Australia. A business that is **registered for GST** does two things:

- it **adds 10% GST** to the price of the goods and services it **sells** (this GST is collected from customers on behalf of the Australian Taxation Office — it is **not** revenue of the business); and
- it **pays 10% GST** on the goods and services it **buys** (this GST can be claimed back — it is **not** an expense of the business).

The business is therefore acting as a **collector of GST for the ATO**. The difference between the GST it has collected on sales and the GST it has paid on purchases is accumulated in a single account, **GST Clearing**, and is periodically settled with the ATO. (The recording of GST in GST Clearing is developed in the sections that follow; this section concentrates on **reading the documents** and **calculating the GST** they involve.)

The figure below shows the whole system, and why the GST a business handles is neither its revenue nor its expense:



The GST system — the business pays GST to its supplier, collects it from its customer, and settles the difference with the ATO

Goods travel one way and GST the other. Whatever the business collects on its sales it is holding for the ATO, and whatever it pays on its purchases it can recover, so only the **difference** between the two is ever settled — which is why both amounts accumulate in a single account, **GST Clearing**, rather than in a revenue or an expense account.

Calculating GST. Because GST is exactly **10%**, there are two situations, depending on what the source document tells you.

From a GST-exclusive price (the price **before** GST is added — how a sales invoice usually lists its items):

- **GST = 10% of the GST-exclusive price** = GST-exclusive price ÷ 10.
- **GST-inclusive total = GST-exclusive price + GST** = GST-exclusive price × 1.1.

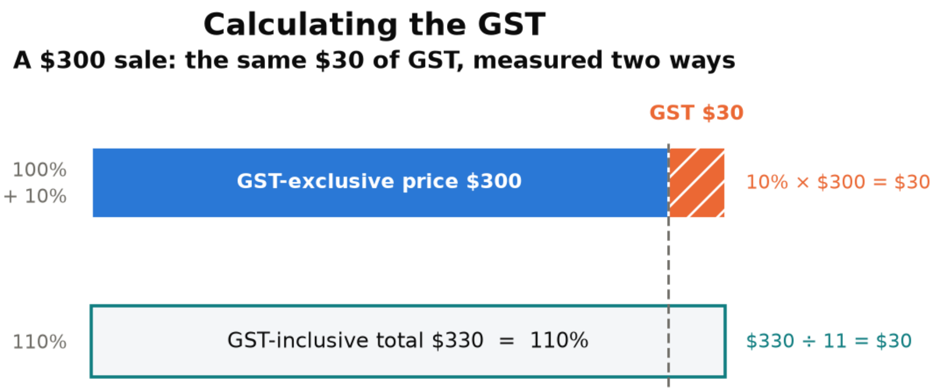
From a GST-inclusive amount (the single **total** shown on an EFT receipt, an EFT payment or a receipt, which already **includes** the GST). Here the total is **110%** of the exclusive price — 100% price plus 10% GST — so the GST is **one-eleventh** of the total:

- **GST = GST-inclusive amount ÷ 11** (an **exact fraction**, because GST ÷ total = 10 ÷ 110 = 1 ÷ 11).
- **GST-exclusive amount = GST-inclusive amount × 10/11** = GST-inclusive amount − GST.

A common mistake is to take 10% of a **GST-inclusive** amount. That is wrong: 10% of the total would overstate the GST, because the total is already bigger than the price the 10% was originally charged on. When the amount **includes** GST, divide by **11**.

Worked model. A sales invoice lists goods with a GST-exclusive price of $300. The GST is 10% × $300 = **$30**, so the GST-inclusive total the customer pays is $300 + $30 = **$330**. Working the other way, if a receipt shows only the GST-inclusive total of $330, the GST is $330 ÷ 11 = **$30** and the GST-exclusive amount is $330 × 10/11 = **$300**. The two methods are mirror images of each other, and each is a check on the other.

Drawn to scale, the two routes measure the same $30 against two different bases:



The GST block is one tenth of the price block but one eleventh of the total — which is why a GST-inclusive amount is divided by 11, not by 10.

A $300 sale — the same $30 of GST measured as 10% of the exclusive price and as one eleventh of the inclusive total

The GST block is one **tenth** of the $300 price block but one **eleventh** of the $330 total, because the total already contains it. That is the whole reason a GST-inclusive amount is divided by **11** and not by 10.

A note on cents. Where a GST-inclusive amount is not a multiple of 11, dividing by 11 gives a figure that is not a whole number of cents. Do **not** round part-way through a calculation; carry the exact value and state the **final** GST and GST-exclusive figures **to the cent**. For example, $100 ÷ 11 is $9.0909…, stated as **$9.09**, and the GST-exclusive amount is $90.91; the two still add back to $100.00.

Worked examples (scaffolded)

Example 1 — GST from a GST-exclusive price; identifying the source document

Lumen Lighting makes a cash sale of 8 *Aurora* pendant lamps at a GST-exclusive price of $80 each on 3 May 2025. The customer pays the total into the business's bank account by electronic transfer. Its sales invoice is:

Tax Invoice 5108 — Lumen Lighting (3 May 2025)	$
8 × Aurora pendant lamp @ $80 (GST-exclusive)	640

Calculate the GST and the total the customer pays, and identify the source document that verifies the receipt of the money.

Working	Comment
GST-exclusive price = 8 × $80 = **$640**.	The invoice lists the price *before* GST is added.
GST = 10% × $640 = $64.	GST is 10% of the GST-exclusive price.
GST-inclusive total = $640 + $64 = $704.	This is the amount the customer actually pays.
Check (the other way): $704 ÷ 11 = **$64**.	The total includes GST, so one-eleventh of it is the GST — the same $64, confirming the figures.

Working	Comment
The **sales invoice** (Tax Invoice 5108) evidences the sale and the GST; the **EFT receipt** evidences the $704 received into the bank.	Two documents, two jobs: the invoice verifies the sale and GST, the EFT receipt verifies the cash received electronically.

Example 2 — GST from a GST-inclusive amount; identifying the source document

On 7 May 2025 *Verdant Landscapes* pays $1 320 by electronic transfer for new shopfront signage. The supplier's tax invoice shows only the GST-inclusive total:

Tax Invoice 6620 — Boulevard Signs (7 May 2025)	$
Shopfront signage (GST-inclusive)	1 320

Calculate the GST included in the payment and the GST-exclusive amount, and identify the source document that verifies the payment.

Working	Comment
The $1 320 **includes** GST, so the GST is one-eleventh of it.	Never take 10% of a GST-inclusive amount — divide by 11.
GST = $1 320 ÷ 11 = $120.	$1 320 ÷ 11 is exact because $1 320 is a multiple of 11.
GST-exclusive amount = $1 320 × 10/11 = $1 200 (or $1 320 − $120).	The price of the signage before GST.
Check (the other way): 10% × $1 200 = **$120**.	10% of the exclusive amount returns the same GST, confirming the split.
The **EFT payment** evidences the $1 320 paid from the bank; the **tax invoice** verifies the GST claimed.	The EFT payment verifies the cash paid; the tax invoice is required to support the GST.

Worked examples (unscaffolded)

Example 3 — a multi-item sale from GST-exclusive prices

Ironbark Joinery makes a cash sale on 14 May 2025, receiving the money by electronic transfer. Its sales invoice is:

Tax Invoice 3390 — Ironbark Joinery (14 May 2025)	$
3 × oak shelf @ $150 (GST-exclusive)	450
5 × pine bracket @ $18 (GST-exclusive)	90

The GST-exclusive subtotal is $450 + $90 = $540. GST = 10% × $540 = $54, so the GST-inclusive total is $540 + $54 = $594 (and, as a check, $594 ÷ 11 = $54). The **sales invoice** verifies the sale and the $54 GST, and the **EFT receipt** verifies the $594 received into the bank.

∴ the GST is $54 and the customer pays a GST-inclusive total of $594.

Example 4 — extracting GST from a receipt, and the document's role

On 22 May 2025 *Tidewater Cafe* pays for a service to its espresso machine and is given a receipt:

Receipt 2043 — Cascade Appliance Repairs (22 May 2025)	$
Espresso machine service (GST-inclusive)	429

The $429 includes GST, so GST = $429 ÷ 11 = $39 and the GST-exclusive amount is $429 × 10/11 = $390 (check: 10% × $390 = $39). The cash left the bank electronically, so the **EFT payment** evidences the payment; the **receipt** is the business's proof that the payment was made, and — because an independent person could inspect it and confirm the same $429 and $39 GST — it is what makes the transaction **verifiable**.

∴ the GST included in the payment is $39 and the GST-exclusive cost of the service is $390.

Practice questions — scaffolded

Question 1

Kestrel Cycles makes a cash sale of 6 *Summit* helmets at a GST-exclusive price of $45 each, receiving the money by electronic transfer (Tax Invoice 4102).

a. Calculate the GST on the sale.
b. Calculate the GST-inclusive total the customer pays.
c. Identify the source document that verifies the receipt of the money into the bank.

Question 2

Marlowe Stationery pays $572 by electronic transfer for office cleaning. The supplier's tax invoice shows only the GST-inclusive total of $572.

a. Calculate the GST included in the $572.
b. Calculate the GST-exclusive amount.
c. Identify the source document that verifies the payment of the money from the bank.

Question 3

Ashgrove Bakery makes a cash sale, receiving the money by electronic transfer. Its sales invoice (Tax Invoice 7781) lists 20 iced cakes at a GST-exclusive price of $7 each and 12 pies at a GST-exclusive price of $5 each.

a. Calculate the GST on the sale.
b. Calculate the GST-inclusive total.
c. Identify the source document that evidences the money received into the bank.

Question 4

Pinnacle Fitness pays its electricity account of $341 (GST-inclusive) by electronic transfer (EFT 3315).

a. Calculate the GST included in the $341.
b. Calculate the GST-exclusive amount of the electricity.
c. Explain, in one or two sentences, the role of the source document in making this transaction verifiable.

Question 5

For each of the following transactions of *Solano Tiles*, identify the source document that verifies it:

a. A customer transfers $913 into the business's bank account for tiles bought.
b. The business transfers $176 to pay its quarterly water rates.
c. The bank deducts $8 in account-keeping fees and adds $12 in interest to the business's account.

Question 6

Brookfield Books pays a courier $100 (GST-inclusive) and is given a receipt (Receipt 615).

a. Calculate the GST included in the $100, to the nearest cent.
b. Calculate the GST-exclusive amount, to the nearest cent.

c. Identify the source document that is the business's proof of the payment, and state one reason the business keeps it.

Practice questions — unscaffolded

Question 7

Quill & Co makes a cash sale of 15 *Heritage* journals at a GST-exclusive price of $12 each, receiving the money by electronic transfer (Tax Invoice 5540). State the GST and the GST-inclusive total, and name the source document that verifies the money received.

Question 8

Halcyon Interiors pays its monthly premises rent of $2 640 (GST-inclusive) by electronic transfer (EFT 8100). State the GST included in the payment and the GST-exclusive amount of the rent.

Question 9

Redgum Timber makes a cash sale on Tax Invoice 6203 of 4 benchtops at a GST-exclusive price of $220 each and 10 dowel packs at a GST-exclusive price of $6 each, receiving the money by electronic transfer. State the GST and the GST-inclusive total.

Question 10

Sable Apparel pays $250 (GST-inclusive) for a garment-rack repair and is given a receipt (Receipt 471). State the GST and the GST-exclusive amount, each to the nearest cent, and show that the two add back to $250.

Question 11

For each transaction of *Meridian Electrical*, state the source document that verifies it:

a. A customer transfers $385 into the bank account for goods bought.

b. The business transfers $209 to pay its internet account.

c. The bank charges $14 in account fees and pays $6 interest.

d. The business sells goods and issues a document showing the items, the GST-exclusive price, the GST and the total.

Question 12

The owner of *Cobalt Auto* buys $660 (GST-inclusive) of workshop tools for cash and suggests that, because the amount is small, the business need not keep the tax invoice. Explain, with reference to **verifiability**, why the source document must be kept.

Question 13

Fernway Nursery makes a cash sale of 5 raised planter boxes at a GST-exclusive price of $250 each, receiving the money by electronic transfer (Tax Invoice 9012). State the GST and the GST-inclusive total.

Question 14

Willowbank Pottery pays its annual insurance of $968 (GST-inclusive) by electronic transfer (EFT 2277). State the GST included in the payment and the GST-exclusive amount.

Question 15

Drummond Music sells a *Cadenza* guitar for a GST-inclusive price of $616, receiving the money by electronic transfer (Tax Invoice 4808). State the GST included in the price and the GST-exclusive selling price of the guitar, and name the source document that verifies the money received.

Question 16

Nova Print completes a printing job priced at $3 400 (GST-exclusive) and is paid by electronic transfer (Tax Invoice 7350). State the GST and the GST-inclusive total the customer pays.

Question 17

The bank statement of *Sandpiper Surf* shows **interest revenue** of $45 and **account-keeping fees** of $15 for the month. State the source document that verifies these two items, explain why no GST is calculated on them, and explain why the business must rely on this document even though it did not issue a document of its own for these amounts.

Question 18

Copperfield Hardware makes a cash sale on Tax Invoice 8890, receiving the money by electronic transfer. The invoice lists 2 cordless drills at a GST-exclusive price of $145 each, 3 toolboxes at a GST-exclusive price of $60 each, and 25 packs of screws at a GST-exclusive price of $4 each. Calculate the GST and the GST-inclusive total, state which source document verifies the money received into the bank, and explain the role of the sales invoice in this transaction.

Answers

1.
   a. \$27 b. \$297 c. EFT receipt
2.
   a. \$52 b. \$520 c. EFT payment
3.
   a. \$20 b. \$220 c. EFT receipt
4.
   a. \$31 b. \$310 c. See solutions (verifiability)
5.
   a. EFT receipt b. EFT payment c. Bank statement
6.
   a. \$9.09 b. \$90.91 c. Receipt (Receipt 615); see solutions
7. GST \$18; total \$198; EFT receipt
8. GST \$240; GST-exclusive \$2 400
9. GST \$94; total \$1 034
10. GST \$22.73; GST-exclusive \$227.27 (\$22.73 + \$227.27 = \$250.00)
11.
    a. EFT receipt b. EFT payment c. Bank statement d. Sales invoice (tax invoice)
12. See solutions
13. GST \$125; total \$1 375
14. GST \$88; GST-exclusive \$880
15. GST \$56; GST-exclusive selling price \$560; EFT receipt
16. GST \$340; total \$3 740
17. Bank statement; no GST — interest and bank charges are not taxable sales or purchases; see solutions
18. GST \$57; total \$627; EFT receipt; see solutions

Fully-worked solutions

Question 1

a. GST-exclusive price = 6 × \$45 = \$270, so GST = 10% × \$270 = **\$27**.

b. GST-inclusive total = \$270 + \$27 = **\$297** (check: \$297 ÷ 11 = \$27).

c. The money is received electronically into the bank, so the **EFT receipt** verifies it. (The sales invoice verifies the sale and the GST; the EFT receipt verifies the cash received.)

Question 2

a. The \$572 is GST-inclusive, so GST = \$572 ÷ 11 = **\$52**.

b. GST-exclusive amount = \$572 × 10/11 = **\$520** (or \$572 − \$52). Check: 10% × \$520 = \$52.

c. The payment is made electronically from the bank, so the **EFT payment** verifies it.

Question 3

a. GST-exclusive subtotal = (20 × \$7) + (12 × \$5) = \$140 + \$60 = \$200, so GST = 10% × \$200 = **\$20**.

b. GST-inclusive total = \$200 + \$20 = **\$220** (check: \$220 ÷ 11 = \$20).

c. The money is received electronically, so the **EFT receipt** evidences it.

Question 4

a. The \$341 is GST-inclusive, so GST = \$341 ÷ 11 = **\$31**.

b. GST-exclusive amount = \$341 × 10/11 = **\$310** (check: 10% × \$310 = \$31).

c. The EFT payment is the source document: it provides independent evidence of the amount, date and payee, so an auditor or the owner could inspect it and confirm the same $341 and $31 GST. This is what makes the transaction satisfy **verifiability** — the recorded figures can be checked against an original document rather than taken on trust.

Question 5

a. Money received electronically into the bank → **EFT receipt**.

b. Money paid electronically from the bank → **EFT payment**.

c. Fees and interest are applied directly by the bank, so they appear on, and are verified by, the **bank statement** — the business issues no document of its own for them.

Question 6

a. The $100 is GST-inclusive, so GST = $100 ÷ 11 = $9.0909… = **$9.09** (to the nearest cent).

b. GST-exclusive amount = $100 × 10/11 = $90.909… = **$90.91**. The two add back: $9.09 + $90.91 = $100.00.

c. The **receipt** (Receipt 615) is the business's proof of the payment. It is kept because it is the source document that verifies the transaction — it lets an independent person confirm the amount, date and payee, and it supports the GST recorded on the payment.

Question 7

GST-exclusive price = 15 × $12 = $180, so GST = 10% × $180 = **$18** and the GST-inclusive total is $180 + $18 = **$198** (check: $198 ÷ 11 = $18). The **EFT receipt** verifies the $198 received into the bank.

Question 8

The $2 640 rent is GST-inclusive, so GST = $2 640 ÷ 11 = **$240** and the GST-exclusive amount is $2 640 × 10/11 = **$2 400** (check: 10% × $2 400 = $240).

Question 9

GST-exclusive subtotal = (4 × $220) + (10 × $6) = $880 + $60 = $940, so GST = 10% × $940 = **$94** and the GST-inclusive total is $940 + $94 = **$1 034** (check: $1 034 ÷ 11 = $94).

Question 10

The $250 is GST-inclusive, so GST = $250 ÷ 11 = $22.7272… = **$22.73** (to the nearest cent) and the GST-exclusive amount = $250 × 10/11 = $227.2727… = **$227.27**. The two add back to the total: $22.73 + $227.27 = **$250.00**.

Question 11

a. Money received electronically → **EFT receipt**.

b. Money paid electronically → **EFT payment**.

c. Bank-applied fees and interest → **bank statement**.

d. A document issued for a sale showing the items, GST-exclusive price, GST and total → **sales invoice (tax invoice)**.

Question 12

The tax invoice is the **source document** for the purchase, and without it the transaction cannot be **verified**. Verifiability requires that an independent person — for example an auditor or the ATO — could examine original evidence and arrive at the same figures. If the invoice is not kept, there is no way to confirm the $660 was spent, what it was spent on, or that it included $60 of GST ($660 ÷ 11), so the recorded amounts could not be relied upon. The size of the amount does not change this: every transaction, small or large, must be supported by its source document. (A valid tax invoice is also what allows the business to record and later claim the GST paid.)

Question 13

GST-exclusive price = 5 × $250 = $1 250, so GST = 10% × $1 250 = **$125** and the GST-inclusive total is $1 250 + $125 = **$1 375** (check: $1 375 ÷ 11 = $125).

Question 14

The $968 insurance is GST-inclusive, so GST = $968 ÷ 11 = **$88** and the GST-exclusive amount is $968 × 10/11 = **$880** (check: 10% × $880 = $88).

Question 15

The $616 is a GST-inclusive selling price, so GST = $616 ÷ 11 = **$56** and the GST-exclusive selling price = $616 × 10/11 = **$560** (check: 10% × $560 = $56). The money is received electronically, so the **EFT receipt** verifies it.

Question 16

The $3 400 is GST-exclusive, so GST = 10% × $3 400 = **$340** and the GST-inclusive total the customer pays is $3 400 + $340 = **$3 740** (check: $3 740 ÷ 11 = $340).

Question 17

The **bank statement** verifies both the $45 interest revenue and the $15 account-keeping fees, because these amounts are applied directly by the bank and the business issues no document of its own for them. **No GST** is calculated on them because interest and bank charges are **not taxable sales or purchases** — the GST does not apply to them, so there is no 10% to add and no one-eleventh to extract. The business must rely on the bank statement because it is the **only source document** evidencing these transactions; without it the interest and fees would be unknown and unverifiable, and the bank balance in the records could not be confirmed against an independent source.

Question 18

GST-exclusive subtotal = (2 × $145) + (3 × $60) + (25 × $4) = $290 + $180 + $100 = $570.

GST = 10% × $570 = **$57**, and the GST-inclusive total the customer pays is $570 + $57 = **$627** (check: $627 ÷ 11 = $57).

The **EFT receipt** verifies the $627 received into the bank. The **sales invoice** (Tax Invoice 8890) evidences the sale itself — it lists the items and their GST-exclusive prices and sets out the $57 GST and the $627 total — so it is the document that verifies *what* was sold and *how much GST* the transaction involved, allowing the sale and its GST to be recorded and later checked by an independent person.

Chapter 4 Cash transactions, the GST and the General Journal — 4B The General Journal and cash receipts

Theory

The **General Journal** is a book of original entry — the place where a transaction is first recorded, in date order, before its two effects are posted to the accounts in the **General Ledger**. Recording a transaction in the General Journal is called **journalising**. Each **journal entry** names the account(s) to be **debited**, the account(s) to be **credited**, the dollar amounts, and a short italicised explanation called a **narration**.

The format of the General Journal. The General Journal has four columns:

- **Date** — the date of the transaction.
- **Details** — the names of the accounts affected, and the narration.
- **Debit $** — the amount debited to the account named on that line.
- **Credit $** — the amount credited to the account named on that line.

Within every entry:

1. the **account(s) debited** are written first, hard against the left of the Details column, with the amount in the **Debit** column;
2. the **account(s) credited** are written next, **indented** to the right, with the amount in the **Credit** column;
3. a **narration** — a brief italicised explanation that names the **source document** — is written on the line below.

Because accounting uses **double-entry** recording, every entry must have **total debits equal to total credits**. This is what keeps the accounting equation (**A = L + OE**) in balance.

Cash receipts. A **cash receipt** is a transaction in which money is received into the business bank account. The account that records the firm's cash at bank is **Bank** (an asset). Because a receipt *increases* the asset Bank, **Bank is debited** in every cash-receipt entry. What is **credited** depends on *why* the cash was received:

- **Capital contributed in cash** — the owner deposits their own money into the business. This increases owner's equity, so **Capital is credited**. The source document is a **receipt**. No GST applies: an owner contributing capital is not making a sale.
- **Cash received for a loan** — the business borrows money from a bank or finance company. This creates a liability, so **Loan – <lender> is credited** (the account is named after the lender — for example, **Loan – Southbank Finance**). No GST applies: borrowing money is not a sale.
- **Cash fees or commission revenue earned** — the business is paid in cash for a service it has provided. This increases owner's equity through revenue, so a revenue account such as **Fees revenue** or **Commission revenue** is credited. Providing a service is a **taxable sale**, so this receipt **includes GST**.

The GST on cash receipts. When a business makes a **taxable sale** — including a sale of services such as fees or commission — it adds **10% GST** to the price and collects it from the customer on behalf of the Australian Taxation Office (ATO). The GST collected does not belong to the business; it is owed to the ATO, so it is credited to the **GST Clearing** account (a liability while the business owes GST). In a cash receipt that includes GST:

- **Bank** is debited with the **full amount received** (the GST-inclusive amount);
- the **revenue** account is credited with the **GST-exclusive** amount (the business's actual revenue);
- **GST Clearing** is credited with the **GST**.

The GST is exactly **one-eleventh (1/11) of a GST-inclusive amount**, because that amount is 110% of the price (100% price + 10% GST) and 10/110 = 1/11. Equivalently, GST = 10% of the GST-exclusive price. Capital contributions and loan receipts do **not** include GST, because they are not sales — so those entries have **no GST Clearing line**.

Worked model. On 3 July 2025 Kembla Consulting received $770 in cash for consulting fees provided to a client (**Receipt 14**). The amount includes GST. The GST is 1/11 × $770 = $70, so the fee revenue is $770 − $70 = $700. Bank is debited with the full $770; Fees revenue is credited $700 and GST Clearing is credited $70:

Date 2025	Details	Debit $	Credit $
3 Jul	Bank	770	
	Fees revenue		700
	GST Clearing		70
	Consulting fees received in cash including GST (Rec. 14)		

The debit ($770) equals the two credits ($700 + $70), the credited accounts are indented, and the italicised narration names the source document.

Worked examples (scaffolded)

Example 1 — capital contributed in cash (no GST)

On 1 September 2025, T. Newell started a business, Newell Signwriting, by depositing $40 000 of her own money into the business bank account (**Receipt 1**). Record this cash receipt in the General Journal.

Working	Comment
Identify the accounts: **Bank** (asset) increases; **Capital** (owner's equity) increases.	Every cash receipt increases Bank; here the other account is Capital because the owner is contributing funds.
Bank is an asset — an increase in an asset is a **debit**. Debit Bank $40 000.	Bank is always debited in a cash receipt.
Capital is owner's equity — an increase in owner's equity is a **credit**. Credit Capital $40 000.	The credited account is indented under the debit.
GST? None — an owner contributing capital is not making a sale.	So there is no GST Clearing line in this entry.
Check the entry balances: debit $40 000 = credit $40 000.	Double entry: total debits must equal total credits.

Date 2025	Details	Debit $	Credit $
1 Sep	Bank	40 000	
	Capital		40 000
	Capital contributed by the owner in cash (Rec. 1)		

Example 2 — cash fees revenue including GST

On 3 October 2025, Brightwater Pool Care received $1 650 in cash for pool-servicing fees (**Receipt 22**). The amount includes GST. Record this cash receipt in the General Journal.

Working	Comment
Identify the accounts: **Bank** (asset) increases; **Fees revenue** (revenue) increases; **GST Clearing** (liability) increases.	A service sale is a taxable sale, so GST is collected for the ATO.
The $1 650 received is **GST-inclusive**. GST = 1/11 × $1 650 = **$150**.	GST is one-eleventh of a GST-inclusive amount.
Fees revenue (GST-exclusive) = $1 650 − $150 = **$1 500**.	The business's own revenue excludes the GST collected for the ATO.
Debit Bank $1 650 — the full amount received.	Bank receives the whole GST-inclusive amount.

Working	Comment
Credit Fees revenue $1 500 and **credit GST Clearing $150** (both indented).	Two credits; their total equals the single debit.
Check: debit $1 650 = credits $1 500 + $150.	The entry balances.

Date 2025	Details	Debit $	Credit $
3 Oct	Bank	1 650	
	Fees revenue		1 500
	GST Clearing		150
	Pool-servicing fees received in cash including GST (Rec. 22)		

Worked examples (unscaffolded)

Example 3 — cash received for a loan (no GST)

On 8 November 2025, Delahunty Electrical received $25 000 in cash from Southbank Finance as a business loan (**Receipt 40**). Record this cash receipt in the General Journal.

Receiving a loan increases the asset Bank and creates a liability owed to the lender. Bank is debited $25 000 and **Loan – Southbank Finance** is credited $25 000. Borrowing money is not a sale, so no GST is recorded and there is no GST Clearing line.

Date 2025	Details	Debit $	Credit $
8 Nov	Bank	25 000	
	Loan – Southbank Finance		25 000
	Cash received as a loan from Southbank Finance (Rec. 40)		

∴ Bank is debited $25 000 and Loan – Southbank Finance is credited $25 000, with no GST.

Example 4 — commission revenue including GST

On 15 November 2025, Ridgeway Realty received $880 in cash as commission for arranging a property sale (**Receipt 51**). The amount includes GST. Record this cash receipt in the General Journal.

Commission earned for a service is a taxable sale. The GST is 1/11 × $880 = $80, so the commission revenue is $880 − $80 = $800. Bank is debited with the full $880; Commission revenue is credited $800 and GST Clearing is credited $80.

Date 2025	Details	Debit $	Credit $
15 Nov	Bank	880	
	Commission revenue		800
	GST Clearing		80
	Commission received in cash including GST (Rec. 51)		

∴ Bank $880 (debit) = Commission revenue $800 + GST Clearing $80 (credits).

Practice questions — scaffolded

Question 1

On 1 March 2025, J. Ferndale started a business, Ferndale Landscaping, by depositing $32 000 of personal savings into the business bank account (**Receipt 1**).

a. Prepare the General Journal entry (with narration) to record the contribution.

b. State the source document that evidences this transaction.

c. Explain why no GST is recorded on the owner's cash contribution.

Question 2

On 5 April 2025, Marlow Mobile Mechanics received $2 090 in cash for repair fees (**Receipt 18**). The amount includes GST.

a. Calculate the GST included in the receipt and the fees revenue (GST-exclusive).

b. Prepare the General Journal entry (with narration).

c. Explain why GST Clearing is credited, and state whether GST Clearing is an asset or a liability at this point.

Question 3

On 2 May 2025, Oakleigh Joinery received $18 000 in cash from Meridian Bank as a business loan (**Receipt 12**).

a. Prepare the General Journal entry (with narration).

b. Identify the account credited and state its accounting element (classification).

c. Explain why the Bank account is debited.

Question 4

On 7 June 2025, Coburg Talent Agency earned commission of $600 **plus GST** in cash (**Receipt 30**).

a. Calculate the GST and the total cash received.

b. Prepare the General Journal entry.

c. Write a suitable narration for the entry.

Question 5

On 9 July 2025, Seaford Dance Studio received $528 in cash for class fees (**Receipt 44**). The amount includes GST.

a. Calculate the GST and the fees revenue.

b. Prepare the General Journal entry (with narration).

c. Using the effect on the accounting equation, explain why Fees revenue is credited.

Question 6

Thornbury Tutoring, owned by R. Thornbury, had two cash receipts:

- 1 August 2025 — R. Thornbury contributed $15 000 cash to start the business (**Receipt 1**).
- 4 August 2025 — received $946 in cash for tutoring fees (**Receipt 3**), including GST.

a. Prepare the General Journal entry for the capital contribution.

b. Prepare the General Journal entry for the cash fee.

c. Explain the difference in the GST treatment of the two receipts.

Practice questions — unscaffolded

Question 7

On 1 September 2025, P. Wodonga started Wodonga Welding by contributing $50 000 of her own cash to the business (**Receipt 1**). Prepare the General Journal entry, with narration.

Question 8

On 3 September 2025, Bendigo Bakery received $22 000 in cash from Goldfields Credit Union as a business loan (**Receipt 8**). Prepare the General Journal entry, with narration.

Question 9

On 6 September 2025, Traralgon Tyre Centre received $1 320 in cash for tyre-fitting fees (**Receipt 15**), including GST. Prepare the General Journal entry, with narration.

Question 10

On 10 September 2025, Hampton Realty earned commission of $1 400 **plus GST** in cash (**Receipt 21**). Prepare the General Journal entry, with narration.

Question 11

On 12 September 2025, Echuca Detailing received $451 in cash for car-detailing fees (**Receipt 27**), including GST. Prepare the General Journal entry, and write the narration.

Question 12

Kyneton Cabinets, owned by L. Kyneton, commenced on 1 October 2025 with three cash receipts on that day:

- **Receipt 1** — the owner contributed $35 000 cash.
- **Receipt 2** — received $20 000 cash as a loan from Campaspe Finance.
- **Receipt 3** — received $924 cash for a cabinet-fitting fee, including GST.

Prepare the General Journal entries for all three receipts.

Question 13

On 15 September 2025, Warragul Plumbing received $693 in cash for plumbing fees (**Receipt 33**), including GST. Prepare the General Journal entry, then explain why Bank is debited and why GST Clearing is credited, referring to the effect on assets, liabilities and owner's equity.

Question 14

On 18 September 2025, Numurkah Nursery received a cash fee for garden-design services (**Receipt 39**). The GST included in the receipt was $57. Calculate the total cash received and the fees revenue, then prepare the General Journal entry.

Question 15

On 20 September 2025, Portsea Property received $1 034 in cash as commission (**Receipt 45**), including GST. Prepare the General Journal entry, and state whether GST Clearing is an asset or a liability here, explaining your answer.

Question 16

Mansfield Motors, owned by D. Mansfield, had two receipts:

- 1 October 2025 — D. Mansfield contributed $28 000 cash to the business (**Receipt 1**).
- 5 October 2025 — received $1 100 in cash for a service fee (**Receipt 4**), including GST.

Prepare both General Journal entries, and explain why one receipt carries GST and the other does not.

Question 17

A cash receipt of Rosebud Gymnastics on 22 September 2025 (**Receipt 52**) has been recorded with Bank debited $836, Fees revenue credited $760 and GST Clearing credited $76. Write an appropriate narration for the entry, and explain the purpose of a narration in the General Journal.

Question 18

Gippsland Glass, owned by S. Gippsland, had the following cash receipts in November 2025. Prepare the General Journal entries for the period.

- 1 November — owner contributed $45 000 cash (**Receipt 1**).
- 2 November — received $30 000 cash as a loan from Latrobe Finance (**Receipt 2**).
- 5 November — received $2 970 cash for glass-cutting fees, including GST (**Receipt 3**).
- 9 November — received $605 cash commission, including GST (**Receipt 4**).

Answers

1. Dr Bank $32 000 / Cr Capital $32 000; no GST (a capital contribution is not a sale).
2.
    a. GST $190; fees revenue $1 900. b. Dr Bank $2 090 / Cr Fees revenue $1 900, Cr GST Clearing $190. c. Liability.
3. Dr Bank $18 000 / Cr Loan – Meridian Bank $18 000 (a liability); Bank debited because the asset increased.
4.
    a. GST $60; total cash $660. b. Dr Bank $660 / Cr Commission revenue $600, Cr GST Clearing $60.
5.
    a. GST $48; fees revenue $480. b. Dr Bank $528 / Cr Fees revenue $480, Cr GST Clearing $48.
6.
    a. Dr Bank $15 000 / Cr Capital $15 000. b. Dr Bank $946 / Cr Fees revenue $860, Cr GST Clearing $86.
7. Dr Bank $50 000 / Cr Capital $50 000.
8. Dr Bank $22 000 / Cr Loan – Goldfields Credit Union $22 000.
9. Dr Bank $1 320 / Cr Fees revenue $1 200, Cr GST Clearing $120.
10. GST $140; total $1 540. Dr Bank $1 540 / Cr Commission revenue $1 400, Cr GST Clearing $140.
11. Dr Bank $451 / Cr Fees revenue $410, Cr GST Clearing $41.
12. Dr Bank $35 000 / Cr Capital $35 000; Dr Bank $20 000 / Cr Loan – Campaspe Finance $20 000; Dr Bank $924 / Cr Fees revenue $840, Cr GST Clearing $84.
13. Dr Bank $693 / Cr Fees revenue $630, Cr GST Clearing $63.
14. Total cash $627; fees revenue $570. Dr Bank $627 / Cr Fees revenue $570, Cr GST Clearing $57.
15. Dr Bank $1 034 / Cr Commission revenue $940, Cr GST Clearing $94; GST Clearing is a liability.
16. Dr Bank $28 000 / Cr Capital $28 000; Dr Bank $1 100 / Cr Fees revenue $1 000, Cr GST Clearing $100.
17. Dr Bank $836 / Cr Fees revenue $760, Cr GST Clearing $76 (narration — see solutions).
18. Capital $45 000; Loan – Latrobe Finance $30 000; fees $2 700 + GST $270 ($2 970); commission $550 + GST $55 ($605).

Fully-worked solutions

Question 1

Date 2025	Details	Debit $	Credit $
1 Mar	Bank	32 000	
	Capital		32 000
	Capital contributed by the owner in cash (Rec. 1)		

b. The source document is a **receipt** (**Receipt 1**) issued by the business for the cash banked.

c. GST is only collected on a **taxable sale**. An owner contributing capital is putting personal funds into the business, not buying or selling goods or services, so no GST is charged or collected and there is no GST Clearing line.

Question 2

a. GST = 1/11 × $2 090 = **$190**; fees revenue = $2 090 − $190 = **$1 900**.

Date 2025	Details	Debit $	Credit $
5 Apr	Bank	2 090	
	Fees revenue		1 900
	GST Clearing		190
	Repair fees		

Date 2025	Details	Debit $	Credit $
	received in cash including GST (Rec. 18)		

c. GST Clearing is credited because the $190 GST collected does not belong to the business — it is owed to the ATO. At this point it is a **liability** (the business must pass the GST on to the ATO).

Question 3

Date 2025	Details	Debit $	Credit $
2 May	Bank	18 000	
	Loan – Meridian Bank		18 000
	Cash received as a loan from Meridian Bank (Rec. 12)		

b. The account credited is **Loan – Meridian Bank**, a **liability** (a present obligation to repay the lender).

c. Bank is debited because the business's cash at bank — an **asset** — has **increased**, and an increase in an asset is recorded as a debit.

Question 4

a. GST = 10% × $600 = **$60**; total cash received = $600 + $60 = **$660**.

Date 2025	Details	Debit $	Credit $
7 Jun	Bank	660	
	Commission revenue		600
	GST Clearing		60
	Commission earned in cash including GST (Rec. 30)		

c. A suitable narration is *Commission earned in cash including GST (Rec. 30)* — it states what happened and names the source document.

Question 5

a. GST = 1/11 × $528 = **$48**; fees revenue = $528 − $48 = **$480**.

Date 2025	Details	Debit $	Credit $
9 Jul	Bank	528	
	Fees revenue		480
	GST Clearing		48
	Class fees received in cash including GST (Rec. 44)		

c. Earning fees increases **revenue**, which increases **owner's equity**. In the accounting equation A = L + OE, an increase in owner's equity is recorded as a **credit**, so Fees revenue is credited $480.

Question 6

Date 2025	Details	Debit $	Credit $
1 Aug	Bank	15 000	

Date 2025	Details	Debit $	Credit $
	Capital		15 000
	Capital contributed by the owner in cash (Rec. 1)		

Date 2025	Details	Debit $	Credit $
4 Aug	Bank	946	
	Fees revenue		860
	GST Clearing		86
	Tutoring fees received in cash including GST (Rec. 3)		

c. The capital contribution is **not a sale**, so no GST is collected and there is no GST Clearing line. The tutoring fee is **revenue from a taxable sale**, so 1/11 of the $946 received ($86) is GST collected for the ATO and is credited to GST Clearing; only the remaining $860 is the business's revenue.

Question 7

Date 2025	Details	Debit $	Credit $
1 Sep	Bank	50 000	
	Capital		50 000
	Capital contributed by the owner in cash (Rec. 1)		

Question 8

Date 2025	Details	Debit $	Credit $
3 Sep	Bank	22 000	
	Loan – Goldfields Credit Union		22 000
	Cash received as a loan from Goldfields Credit Union (Rec. 8)		

Question 9

GST = 1/11 × $1 320 = $120; fees revenue = $1 200.

Date 2025	Details	Debit $	Credit $
6 Sep	Bank	1 320	
	Fees revenue		1 200
	GST Clearing		120
	Tyre-fitting fees received in cash including GST (Rec. 15)		

Question 10

GST = 10% × $1 400 = $140; total cash = $1 540.

Date 2025	Details	Debit $	Credit $
10 Sep	Bank	1 540	
	Commission revenue		1 400
	GST Clearing		140
	Commission earned in cash including GST (Rec. 21)		

Question 11

GST = 1/11 × $451 = $41; fees revenue = $410.

Date 2025	Details	Debit $	Credit $
12 Sep	Bank	451	
	Fees revenue		410
	GST Clearing		41
	Car-detailing fees received in cash including GST (Rec. 27)		

Question 12

GST on the cabinet-fitting fee = 1/11 × $924 = $84; fees revenue = $924 − $84 = $840. The capital contribution and the loan are not sales, so neither carries GST.

Date 2025	Details	Debit $	Credit $
1 Oct	Bank	35 000	
	Capital		35 000
	Capital contributed by the owner in cash (Rec. 1)		
1 Oct	Bank	20 000	
	Loan – Campaspe Finance		20 000
	Cash received as a loan from Campaspe Finance (Rec. 2)		
1 Oct	Bank	924	
	Fees revenue		840
	GST Clearing		84
	Cabinet-fitting fee received in cash including GST (Rec. 3)		

Question 13

GST = 1/11 × $693 = $63; fees revenue = $630.

Date 2025	Details	Debit $	Credit $
15 Sep	Bank	693	

Date 2025	Details	Debit $	Credit $
	Fees revenue		630
	GST Clearing		63
	Plumbing fees received in cash including GST (Rec. 33)		

Bank is debited because the business's cash at bank (an **asset**) increased by the full $693 received, and an increase in an asset is a debit. **GST Clearing is credited** because $63 of that cash is GST collected on behalf of the ATO, creating (or increasing) a **liability** owed to the ATO; the remaining $630 is revenue, which increases **owner's equity** and is credited to Fees revenue.

Question 14

The GST is 1/11 of the GST-inclusive amount, so the total received = $57 × 11 = **$627**, and fees revenue = $627 − $57 = **$570**.

Date 2025	Details	Debit $	Credit $
18 Sep	Bank	627	
	Fees revenue		570
	GST Clearing		57
	Garden-design fees received in cash including GST (Rec. 39)		

Question 15

GST = 1/11 × $1 034 = $94; commission revenue = $940.

Date 2025	Details	Debit $	Credit $
20 Sep	Bank	1 034	
	Commission revenue		940
	GST Clearing		94
	Commission received in cash including GST (Rec. 45)		

GST Clearing here is a **liability**: the $94 GST collected from the customer is owed to the ATO, so it represents a present obligation to transfer cash to the ATO in the future.

Question 16

Date 2025	Details	Debit $	Credit $
1 Oct	Bank	28 000	
	Capital		28 000
	Capital contributed by the owner in cash (Rec. 1)		
5 Oct	Bank	1 100	

Date 2025	Details	Debit $	Credit $
	Fees revenue		1 000
	GST Clearing		100
	Service fee received in cash including GST (Rec. 4)		

The capital contribution carries **no GST** because the owner is not selling goods or services — it is not a taxable sale. The service fee **is** a taxable sale, so 1/11 of the $1 100 ($100) is GST collected for the ATO and is credited to GST Clearing, leaving $1 000 as the business's revenue.

Question 17

A suitable narration is *Service fees received in cash including GST (Rec. 52)*.

A **narration** is a brief explanation written (in italics) beneath each General Journal entry. Its purpose is to explain **what the transaction was** and to identify the **source document** that verifies it, so that anyone reading the journal can understand and check the entry. This supports **verifiability** and provides an audit trail from the record back to the evidence.

Question 18

Fees: GST = 1/11 × $2 970 = $270, revenue $2 700. Commission: GST = 1/11 × $605 = $55, revenue $550.

Date 2025	Details	Debit $	Credit $
1 Nov	Bank	45 000	
	Capital		45 000
	Capital contributed by the owner in cash (Rec. 1)		
2 Nov	Bank	30 000	
	Loan – Latrobe Finance		30 000
	Cash received as a loan from Latrobe Finance (Rec. 2)		
5 Nov	Bank	2 970	
	Fees revenue		2 700
	GST Clearing		270
	Glass-cutting fees received in cash including GST (Rec. 3)		
9 Nov	Bank	605	
	Commission revenue		550
	GST Clearing		55
	Commission received in cash including GST (Rec. 4)		

Chapter 4 Cash transactions, the GST and the General Journal — 4C Cash sales, cash payments and the GST

Theory

A trading business that records inventory **perpetually** keeps a continuous record of both the **selling price** and the **cost price** of its inventory. When inventory is sold, two things happen at the same moment: the business **earns revenue** (the selling price it charges the customer) and it **gives up an asset** (the inventory, recorded at its cost price). Because a perpetual system tracks inventory continuously, the **cost of the inventory sold is recorded at the point of sale** — not left until the end of the period. This is why a sale of inventory always requires **two General Journal entries**.

Recording a cash sale of inventory. When a business sells inventory for cash it prepares a **cash receipt** (or an EFT receipt) as the source document. Two entries are made:

1. **The revenue entry.** The full amount received is banked, so **Bank** is **debited** with the **GST-inclusive** amount. The **Sales** revenue account is **credited** with the GST-exclusive selling price, and **GST Clearing** is **credited** with the GST the business has collected on the sale.
2. **The cost-of-sales entry. Cost of Sales** (an expense) is **debited** with the cost price of the inventory sold, and the **Inventory** asset is **credited** with the same amount, because that inventory has left the business.

The first entry measures the **revenue** and the GST the business owes the ATO on the sale; the second entry measures the **expense** (the cost of the goods that were sold) and the **reduction in the Inventory asset**. Reporting both at the point of sale means the profit on the sale — selling price less cost price — is recognised in the period the sale occurs, a **faithful representation** of what the business achieved.

The GST on a sale. The GST is **10%** of the GST-exclusive selling price, which is the same as **one-eleventh (1/11) of the GST-inclusive amount**. When a business sells inventory it **collects** GST on behalf of the ATO, so the GST is **credited** to **GST Clearing** — it is a liability owed to the ATO (or a reduction of a GST refund receivable). Note carefully:

- If a sale is quoted as **“$1 000 plus GST”**, the selling price is the GST-exclusive figure ($1 000), the GST is $100, and the customer pays a **GST-inclusive** $1 100.
- If a sale is quoted as **“$1 100 (GST-inclusive)”**, the total banked is $1 100, the GST is 1/11 × $1 100 = $100, and the Sales figure is $1 000.

Either way, **Bank** is debited with the total received, **Sales** is credited with the GST-exclusive amount and **GST Clearing** is credited with the GST.

Recording a cash payment (with GST). When a business pays cash for an **expense** (such as advertising, rent, electricity, insurance, cleaning or repairs) or buys a **non-current asset** (such as equipment, a motor vehicle or shop fittings) and the supplier charges GST, the business **pays** GST that it is entitled to **claim back** from the ATO. Three lines are recorded:

- The **expense** or the **non-current asset** account is **debited** with the **GST-exclusive** amount (the value of what was acquired).
- **GST Clearing** is **debited** with the GST paid (10% of the GST-exclusive amount, or 1/11 of the GST-inclusive amount). Debiting GST Clearing reduces the amount owed to the ATO, or increases a GST refund the business can claim.
- **Bank** is **credited** with the total **GST-inclusive** amount paid.

The GST paid on a purchase is **never** added to the cost of the expense or the asset — it is recorded separately in **GST Clearing**, because the business will recover it from the ATO. Some payments are **not subject to GST** — **wages** (an employee’s labour is not a taxable supply) and **interest** are the common examples. A GST-free payment carries **no GST Clearing line at all**: the expense is debited with the full amount paid, and **Bank** is credited with the same amount.

The GST Clearing account as a running total. Every sale **credits** GST Clearing (GST collected) and every GST-bearing payment **debits** GST Clearing (GST paid). GST Clearing therefore accumulates the net amount owing to, or claimable from, the ATO across the period — the subject of the next section.

Worked model. On 3 July 2026 **Brightway Office Supplies** made a cash sale of 12 *Zenith* desk lamps for $1 320 (GST-inclusive), **Rec. 501**. Each lamp had cost $45. The GST is 1/11 × $1 320 = **$120**, so Sales = $1 200; the cost of the 12 lamps is 12 × $45 = **$540**. On 5 July it paid $264 (GST-inclusive) for advertising, **EFT 2201**; the GST is 1/11 × $264 = **$24**, so Advertising = $240.

General Journal

Date 2026	Details	Debit $	Credit $
3 Jul	Bank	1 320	
	Sales		1 200
	GST Clearing		120
	Cash sale of inventory (Rec. 501)		
3 Jul	Cost of Sales	540	
	Inventory		540
	Cost of inventory sold		
5 Jul	Advertising	240	
	GST Clearing	24	
	Bank		264
	Payment for advertising (EFT 2201)		

Worked examples (scaffolded)

Example 1 — a cash sale of inventory (two entries) with GST and cost of sales

On 5 August 2026 **Rivergum Cycles** sold 15 *Cadence* bike helmets for cash, receiving $2 310 (GST-inclusive), **Rec. 88**. Each helmet had cost $60. Record the sale in the General Journal.

Working	Comment
The money received = $2 310 → debit **Bank** $2 310.	The whole GST-inclusive amount is banked, so Bank is debited with it.
GST = 1/11 × $2 310 = **$210** → credit **GST Clearing** $210.	GST is one-eleventh of the GST-inclusive amount; the business collects it for the ATO, so GST Clearing is credited.
Sales = $2 310 − $210 = **$2 100** → credit **Sales** $2 100.	Sales revenue is the GST-exclusive selling price. Entry 1 now balances: $2 310 Dr = $2 100 + $210 Cr.
Cost of the helmets sold = 15 × $60 = **$900** → debit **Cost of Sales** $900.	In a perpetual system the cost of the inventory sold is recorded at the point of sale, as an expense.
Credit **Inventory** $900.	The inventory has left the business, so the Inventory asset is reduced by its cost. Entry 2 balances: $900 Dr = $900 Cr.

General Journal

Date 2026	Details	Debit $	Credit $
5 Aug	Bank	2 310	
	Sales		2 100
	GST Clearing		210

Date 2026	Details	Debit $	Credit $
	Cash sale of inventory (Rec. 88)		
5 Aug	Cost of Sales	900	
	Inventory		900
	Cost of inventory sold		

Example 2 — cash payments for an expense and for a non-current asset

On 8 August 2026 **Parkland Cafe** paid $495 (GST-inclusive) for shop rent (**EFT 3301**) and $3 850 (GST-inclusive) for a new coffee machine, a non-current asset (**EFT 3302**). Record both payments in the General Journal.

Working	Comment
Rent GST = 1/11 × $495 = **$45**; **Rent expense** = $495 − $45 = **$450**.	GST paid is one-eleventh of the GST-inclusive amount; the expense is the GST-exclusive value.
Debit **Rent expense** $450 and **GST Clearing** $45; credit **Bank** $495.	GST Clearing is debited because the business can claim the GST back from the ATO — it is not part of the rent. Entry balances: $450 + $45 = $495.
Machine GST = 1/11 × $3 850 = **$350**; **Equipment** = $3 850 − $350 = **$3 500**.	The coffee machine is a non-current asset, so its GST-exclusive cost is debited to Equipment.
Debit **Equipment** $3 500 and **GST Clearing** $350; credit **Bank** $3 850.	The GST on an asset purchased for cash is still recorded in GST Clearing, not added to the asset's cost. Entry balances: $3 500 + $350 = $3 850.

General Journal

Date 2026	Details	Debit $	Credit $
8 Aug	Rent expense	450	
	GST Clearing	45	
	Bank		495
	Payment of shop rent (EFT 3301)		
8 Aug	Equipment	3 500	
	GST Clearing	350	
	Bank		3 850
	Purchase of coffee machine for cash (EFT 3302)		

Worked examples (unscaffolded)

Example 3 — a cash sale quoted "plus GST"

On 6 September 2026 **Coastline Timber** sold 40 *DuraPine* boards for cash at $25 each **plus GST**, **Rec. 120**. Each board had cost $14. Record the sale in the General Journal.

The selling price is 40 × $25 = $1 000 (GST-exclusive), so the GST is $100 and the customer pays a GST-inclusive $1 100. The cost of the boards sold is 40 × $14 = $560.

General Journal

Date 2026	Details	Debit $	Credit $
6 Sep	Bank	1 100	

Date 2026	Details	Debit $	Credit $
	Sales		1 000
	GST Clearing		100
	Cash sale of inventory (Rec. 120)		
6 Sep	Cost of Sales	560	
	Inventory		560
	Cost of inventory sold		

∴ Bank increases by $1 100, Sales revenue by $1 000, the GST liability by $100, and the Inventory asset falls by its $560 cost as Cost of Sales rises by $560.

Example 4 — cash payments for a non-current asset and an expense

On 12 September 2026 **Ironbark Hardware** paid $1 320 (GST-inclusive) for shop fittings, a non-current asset (**EFT 4110**), and $418 (GST-inclusive) for electricity (**EFT 4111**). Record both payments in the General Journal.

The GST on the fittings is 1/11 × $1 320 = $120, so Fixtures and fittings = $1 200. The GST on the electricity is 1/11 × $418 = $38, so Electricity = $380.

General Journal

Date 2026	Details	Debit $	Credit $
12 Sep	Fixtures and fittings	1 200	
	GST Clearing	120	
	Bank		1 320
	Purchase of shop fittings for cash (EFT 4110)		
12 Sep	Electricity	380	
	GST Clearing	38	
	Bank		418
	Payment of electricity (EFT 4111)		

∴ each payment debits GST Clearing with the GST the business will claim back, so the Bank is credited with the full GST-inclusive amount while only the GST-exclusive value is charged to the asset or the expense.

Practice questions — scaffolded

Question 1

On 4 October 2026 **Meridian Sports** sold 20 *Volley* nets for cash, receiving $1 650 (GST-inclusive), **Rec. 210**. Each net had cost $18.

a. Record the cash sale in the General Journal (both entries).

b. State the amount of GST collected on the sale.

c. Explain why a cash sale of inventory requires two General Journal entries.

Question 2

On 6 October 2026 **Cloverdale Bakery** paid $330 (GST-inclusive) for advertising (**EFT 5501**) and $26 400 (GST-inclusive) for a delivery van, a non-current asset (**EFT 5502**).

a. Record both cash payments in the General Journal.

b. State the total GST recorded in GST Clearing from the two payments.

c. State the effect of the delivery-van purchase on the accounting equation (assets, liabilities and owner's equity).

Question 3

On 9 October 2026 **Highgate Electrical** sold 8 *LumenPro* floodlights for cash, receiving $880 (GST-inclusive), **Rec. 305**. Each floodlight had cost $55.

a. Record the cash sale in the General Journal.

b. State the amount credited to Sales and the amount credited to GST Clearing.

c. Explain the overall effect of the cash sale (both entries) on the accounting equation.

Question 4

On 11 October 2026 **Fernbrook Cafe** made two cash payments: $176 (GST-inclusive) for cleaning (**EFT 6601**) and $990 (GST-inclusive) for insurance (**EFT 6602**).

a. Record both payments in the General Journal.

b. State the total amount credited to Bank and the total amount debited to GST Clearing.

Question 5

On 13 October 2026 **Oakridge Furniture** sold 10 *Hearth* dining chairs for cash, receiving $2 200 (GST-inclusive), **Rec. 410**. Each chair had cost $70.

a. Record the cash sale in the General Journal.

b. State the cost of sales for this sale.

c. Explain why the Cost of Sales entry is recorded at the same time as the sale in a perpetual inventory system.

Question 6

On 15 October 2026 **Seaview Dental** paid $8 800 (GST-inclusive) for a new dental chair, a non-current asset, **EFT 7701**.

a. Record the cash payment in the General Journal.

b. State the amount debited to Equipment and the amount debited to GST Clearing.

c. Explain why the GST paid is debited to GST Clearing rather than added to the cost of the dental chair.

Practice questions — unscaffolded

Question 7

On 2 November 2026 **Brookdale Toys** sold 25 *Comet* scooters for cash, receiving $2 750 (GST-inclusive), **Rec. 512**. Each scooter had cost $32. Record the cash sale in the General Journal and state the amount of GST collected.

Question 8

On 5 November 2026 **Pinehurst Music** sold 6 *Sonata* keyboards for cash at $380 each **plus GST**, **Rec. 92**. Each keyboard had cost $210. Record the cash sale in the General Journal.

Question 9

On 7 November 2026 **Cedar Grove Motel** paid $704 (GST-inclusive) for electricity (**EFT 8801**) and $132 (GST-inclusive) for cleaning (**EFT 8802**). Record both cash payments in the General Journal and state the total GST recorded.

Question 10

On 10 November 2026 **Westland Logistics** bought a forklift for cash, a non-current asset, **EFT 9901**. The tax invoice showed **GST of $1 500**. Calculate the GST-exclusive cost of the forklift and the total amount paid, then record the cash payment in the General Journal.

Question 11

On 12 November 2026 **Thornbury Hardware** had two cash transactions: it sold 30 *GripFast* clamps for cash, receiving $990 (GST-inclusive), **Rec. 300** (each clamp had cost $8); and it paid $770 (GST-inclusive) for shop rent, **EFT 1200**. Record all entries in the General Journal.

Question 12

On 13 November 2026 **Colville Joinery** made two cash payments: $3 400 for wages (**EFT 1300**) and $682 (GST-inclusive) for repairs to its machinery (**EFT 1301**). Record both payments in the General Journal, state the total debited to GST Clearing, and explain why only one of the two payments affects GST Clearing.

Question 13

On 14 November 2026 **Lantern Interiors** sold 10 *Aurora* lamps for cash, receiving $660 (GST-inclusive), **Rec. 350**. Each lamp had cost $40. Record the cash sale, then state the effect of the whole transaction (both entries) on **assets**, **liabilities** and **owner's equity**, showing that the accounting equation stays in balance.

Question 14

On 16 November 2026 **Marchmont Clinic** paid $13 200 (GST-inclusive) for a digital X-ray unit, a non-current asset, **EFT 1500**. Record the cash payment in the General Journal, state the amount debited to Equipment and to GST Clearing, and state whether the debit to GST Clearing increases or decreases the amount the clinic owes the ATO.

Question 15

On 18 November 2026 **Rosedale Cafe** made three cash payments: $550 (GST-inclusive) for advertising (**EFT 1600**), $374 (GST-inclusive) for repairs (**EFT 1601**) and $88 (GST-inclusive) for stationery (**EFT 1602**). Record all three payments in the General Journal and state the total GST recorded.

Question 16

On 21 November 2026 **Glenpark Cycles** sold 5 *Terrain* mountain bikes for cash at $900 each **plus GST**, **Rec. 655**. Each bike had cost $520. Record the cash sale in the General Journal and state the cost of sales.

Question 17

A bookkeeper recorded a cash sale of inventory but entered **only** the first entry (Bank Dr; Sales Cr; GST Clearing Cr) and omitted the second entry (Cost of Sales Dr; Inventory Cr). Explain the effect of this omission on the **Income Statement** and the **Balance Sheet**, and identify the qualitative characteristic that the omission breaches.

Question 18

On 30 November 2026 **Summerhill Stores** had three cash transactions: it sold 40 *EcoWrap* rolls for cash, receiving $880 (GST-inclusive), **Rec. 702** (each roll had cost $3); it paid $220 (GST-inclusive) for advertising, **EFT 2000**; and it paid $1 650 (GST-inclusive) for display shelving, a non-current asset, **EFT 2001**. Record all entries in the General Journal, then state the **net** movement in the GST Clearing account for the day and whether it is a debit or a credit.

Answers

1.
    b. GST $150 collected c. one entry for the revenue + GST, one for the cost of sales + inventory
2.
    b. Total GST $2 430 ($30 + $2 400) c. Assets +$24 000 (van) −$26 400 (Bank) = −$2 400; Liabilities −$2 400 (GST Clearing); Owner's equity unchanged
3.
    b. Sales $800; GST Clearing $80 c. Assets +$440 net; Liabilities +$80; Owner's equity +$360
4.
    b. Bank $1 166; GST Clearing $106
5.
    b. Cost of sales $700 c. see solutions
6.
    b. Equipment $8 000; GST Clearing $800 c. see solutions
7. Bank $2 750; Sales $2 500; GST $250; Cost of Sales $800
8. Bank $2 508; Sales $2 280; GST $228; Cost of Sales $1 260
9. Total GST $76 (Bank paid $836)
10. Forklift (Equipment) $15 000; GST Clearing $1 500; total paid (Bank) $16 500
11. Sale: Bank $990 / Sales $900 / GST $90 / Cost of Sales $240; Rent $700 + GST $70, Bank $770
12. Wages $3 400 (no GST); Repairs $620 + GST $62 (Bank $682); total GST Clearing $62 debit
13. Assets +$260; Liabilities +$60; Owner's equity +$200 ($260 = $60 + $200)
14. Equipment $12 000; GST Clearing $1 200; the debit **decreases** the amount owed to the ATO
15. Total GST $92 (Bank paid $1 012)
16. Bank $4 950; Sales $4 500; GST $450; Cost of Sales $2 600
17. Cost of Sales understated → net profit overstated; Inventory overstated in the Balance Sheet; breaches faithful representation
18. Net GST Clearing = $90 **debit** (GST collected $80 Cr; GST paid $20 + $150 = $170 Dr)

Fully-worked solutions

Question 1

GST = 1/11 × $1 650 = $150; Sales = $1 650 − $150 = $1 500; Cost of Sales = 20 × $18 = $360.

General Journal

Date 2026	Details	Debit $	Credit $
4 Oct	Bank	1 650	
	Sales		1 500
	GST Clearing		150
	Cash sale of inventory (Rec. 210)		
4 Oct	Cost of Sales	360	
	Inventory		360
	Cost of inventory sold		

b. GST collected = **$150**.

c. Two entries are needed because a cash sale has two distinct effects. The **first entry** records the **revenue** earned (Sales) and the **GST collected** for the ATO (GST Clearing), matched by the cash banked. The **second** entry records the **expense** of the sale — the **cost** of the inventory sold (Cost of Sales) — and the **reduction in the Inventory asset**. In a perpetual system both are recorded at the point of sale.

Question 2

Advertising GST = 1/11 × $330 = $30, so Advertising = $300. Van GST = 1/11 × $26 400 = $2 400, so the Motor vehicle = $24 000.

General Journal

Date 2026	Details	Debit $	Credit $
6 Oct	Advertising	300	
	GST Clearing	30	
	Bank		330
	Payment for advertising (EFT 5501)		
6 Oct	Motor vehicle	24 000	
	GST Clearing	2 400	
	Bank		26 400
	Purchase of delivery van for cash (EFT 5502)		

b. Total GST = $30 + $2 400 = **$2 430**.

c. The van purchase **increases** the Motor vehicle asset by $24 000 and **decreases** the Bank asset by $26 400, a net **decrease in assets of $2 400**; it **decreases the liability** GST Clearing by $2 400 (the GST paid is claimable from the ATO); **owner's equity is unchanged**. The equation stays in balance: −$2 400 (A) = −$2 400 (L) + $0 (OE).

Question 3

GST = 1/11 × $880 = $80; Sales = $800; Cost of Sales = 8 × $55 = $440.

General Journal

Date 2026	Details	Debit $	Credit $
9 Oct	Bank	880	
	Sales		800
	GST Clearing		80
	Cash sale of inventory (Rec. 305)		
9 Oct	Cost of Sales	440	
	Inventory		440
	Cost of inventory sold		

b. Sales credited **$800**; GST Clearing credited **$80**.

c. **Assets:** Bank +$880 and Inventory −$440, a net increase of **+$440**. **Liabilities:** GST Clearing +$80 (GST owed to the ATO). **Owner's equity:** Sales revenue +$800 less Cost of Sales expense $440 = **+$360** (the profit on the sale). Check: **$440 (A) = $80 (L) + $360 (OE)** — the accounting equation stays in balance.

Question 4

Cleaning GST = 1/11 × $176 = $16, so Cleaning = $160. Insurance GST = 1/11 × $990 = $90, so Insurance = $900.

General Journal

Date 2026	Details	Debit $	Credit $
11 Oct	Cleaning	160	
	GST Clearing	16	
	Bank		176
	Payment for cleaning (EFT 6601)		
11 Oct	Insurance	900	
	GST Clearing	90	
	Bank		990
	Payment of insurance (EFT 6602)		

b. Total credited to Bank = $176 + $990 = **$1 166**; total debited to GST Clearing = $16 + $90 = **$106**.

Question 5

GST = 1/11 × $2 200 = $200; Sales = $2 000; Cost of Sales = 10 × $70 = $700.

General Journal

Date 2026	Details	Debit $	Credit $
13 Oct	Bank	2 200	
	Sales		2 000
	GST Clearing		200
	Cash sale of inventory (Rec. 410)		
13 Oct	Cost of Sales	700	
	Inventory		700
	Cost of inventory sold		

b. Cost of sales = 10 × $70 = **$700**.

c. A perpetual inventory system keeps a continuous record of the inventory on hand, so the moment inventory is sold its **cost** must be transferred out of the Inventory asset and recognised as the **Cost of Sales** expense. Recording the cost at the point of sale **matches** the cost of the goods with the revenue they earned in the same period, giving a faithful measure of the profit on the sale and an up-to-date Inventory balance.

Question 6

GST = 1/11 × $8 800 = $800; Equipment = $8 000.

General Journal

Date 2026	Details	Debit $	Credit $
15 Oct	Equipment	8 000	
	GST Clearing	800	
	Bank		8 800
	Purchase of dental chair for cash (EFT		

Date 2026	Details	Debit $	Credit $
	7701)		

b. Equipment debited **$8 000**; GST Clearing debited **$800**.

c. The $800 GST is **not** a cost of the dental chair; it is a tax the clinic pays to the supplier but can **recover from the ATO**. Recording it in **GST Clearing** (which reduces the net GST the clinic owes the ATO) keeps the GST separate from the asset, so the Equipment account shows the chair at its true cost of $8 000 — a faithful representation of the asset's value.

Question 7

GST = 1/11 × $2 750 = $250; Sales = $2 500; Cost of Sales = 25 × $32 = $800.

General Journal

Date 2026	Details	Debit $	Credit $
2 Nov	Bank	2 750	
	Sales		2 500
	GST Clearing		250
	Cash sale of inventory (Rec. 512)		
2 Nov	Cost of Sales	800	
	Inventory		800
	Cost of inventory sold		

GST collected = **$250**.

Question 8

Selling price = 6 × $380 = $2 280 (GST-exclusive); GST = $228; Bank = $2 508; Cost of Sales = 6 × $210 = $1 260.

General Journal

Date 2026	Details	Debit $	Credit $
5 Nov	Bank	2 508	
	Sales		2 280
	GST Clearing		228
	Cash sale of inventory (Rec. 92)		
5 Nov	Cost of Sales	1 260	
	Inventory		1 260
	Cost of inventory sold		

Question 9

Electricity GST = 1/11 × $704 = $64, so Electricity = $640. Cleaning GST = 1/11 × $132 = $12, so Cleaning = $120.

General Journal

Date 2026	Details	Debit $	Credit $
7 Nov	Electricity	640	
	GST Clearing	64	

Date 2026	Details	Debit $	Credit $
	Bank		704
	Payment of electricity (EFT 8801)		
7 Nov	Cleaning	120	
	GST Clearing	12	
	Bank		132
	Payment for cleaning (EFT 8802)		

Total GST recorded = $64 + $12 = **$76** (total Bank paid $836).

Question 10

The GST is **10% of the GST-exclusive cost**, so the cost of the forklift = 10 × $1 500 = $15 000, and the total paid = $15 000 + $1 500 = $16 500. (Check: 1/11 × $16 500 = $1 500.)

General Journal

Date 2026	Details	Debit $	Credit $
10 Nov	Equipment	15 000	
	GST Clearing	1 500	
	Bank		16 500
	Purchase of forklift for cash (EFT 9901)		

Equipment debited **$15 000**; GST Clearing debited **$1 500**; Bank credited **$16 500**.

Question 11

Sale: GST = 1/11 × $990 = $90; Sales = $900; Cost of Sales = 30 × $8 = $240. Rent: GST = 1/11 × $770 = $70; Rent expense = $700.

General Journal

Date 2026	Details	Debit $	Credit $
12 Nov	Bank	990	
	Sales		900
	GST Clearing		90
	Cash sale of inventory (Rec. 300)		
12 Nov	Cost of Sales	240	
	Inventory		240
	Cost of inventory sold		
12 Nov	Rent expense	700	
	GST Clearing	70	
	Bank		770
	Payment of shop		

Date 2026	Details	Debit $	Credit $
	rent (EFT 1200)		

Question 12

Wages are **not subject to GST**, so the full $3 400 is debited to **Wages** and **Bank** is credited with the same amount — there is no GST Clearing line. Repairs GST = 1/11 × $682 = $62, so Repairs = $620.

General Journal

Date 2026	Details	Debit $	Credit $
13 Nov	Wages	3 400	
	Bank		3 400
	Payment of wages (EFT 1300)		
13 Nov	Repairs	620	
	GST Clearing	62	
	Bank		682
	Payment for machinery repairs (EFT 1301)		

Total debited to GST Clearing = **$62** (total credited to Bank = $3 400 + $682 = $4 082).

Only the **repairs** payment affects GST Clearing. Wages are paid for an employee's labour, which is not a taxable supply, so no GST is charged and there is nothing for the business to claim back from the ATO — the whole $3 400 is the Wages expense. The repairer's service **is** a taxable supply, so $62 of the $682 paid is GST that the business will recover from the ATO; that $62 is debited to **GST Clearing** (reducing the amount owed to the ATO) and only the GST-exclusive $620 is charged to the Repairs expense.

Question 13

GST = 1/11 × $660 = $60; Sales = $600; Cost of Sales = 10 × $40 = $400.

General Journal

Date 2026	Details	Debit $	Credit $
14 Nov	Bank	660	
	Sales		600
	GST Clearing		60
	Cash sale of inventory (Rec. 350)		
14 Nov	Cost of Sales	400	
	Inventory		400
	Cost of inventory sold		

Effect on the accounting equation.

- **Assets:** Bank **+$660** and Inventory **−$400**, a net increase of **+$260**.
- **Liabilities:** GST Clearing **+$60** (GST owed to the ATO).
- **Owner's equity:** Sales revenue **+$600** less Cost of Sales expense **$400** = **+$200**.

Check: **$260 (A) = $60 (L) + $200 (OE)** — the accounting equation stays in balance.

Question 14

GST = 1/11 × $13 200 = $1 200; Equipment = $12 000.

General Journal

Date 2026	Details	Debit $	Credit $
16 Nov	Equipment	12 000	
	GST Clearing	1 200	
	Bank		13 200
	Purchase of X-ray unit for cash (EFT 1500)		

Equipment debited **$12 000**; GST Clearing debited **$1 200**. The debit to GST Clearing **decreases** the amount the clinic owes the ATO (or increases a refund claimable), because the clinic can recover the GST it has paid.

Question 15

Advertising GST = 1/11 × $550 = $50 (Advertising $500); Repairs GST = 1/11 × $374 = $34 (Repairs $340); Stationery GST = 1/11 × $88 = $8 (Stationery $80).

General Journal

Date 2026	Details	Debit $	Credit $
18 Nov	Advertising	500	
	GST Clearing	50	
	Bank		550
	Payment for advertising (EFT 1600)		
18 Nov	Repairs	340	
	GST Clearing	34	
	Bank		374
	Payment for repairs (EFT 1601)		
18 Nov	Stationery	80	
	GST Clearing	8	
	Bank		88
	Payment for stationery (EFT 1602)		

Total GST recorded = $50 + $34 + $8 = **$92** (total Bank paid $1 012).

Question 16

Selling price = 5 × $900 = $4 500 (GST-exclusive); GST = $450; Bank = $4 950; Cost of Sales = 5 × $520 = $2 600.

General Journal

Date 2026	Details	Debit $	Credit $
21 Nov	Bank	4 950	
	Sales		4 500

Date 2026	Details	Debit $	Credit $
	GST Clearing		450
	Cash sale of inventory (Rec. 655)		
21 Nov	Cost of Sales	2 600	
	Inventory		2 600
	Cost of inventory sold		

Cost of sales = 5 × $520 = **$2 600**.

Question 17

Omitting the second entry (Cost of Sales Dr; Inventory Cr) means the cost of the inventory sold is never recorded. In the **Income Statement**, **Cost of Sales is understated**, so **gross profit and net profit are overstated**. In the **Balance Sheet**, the **Inventory asset is overstated**, because the goods that have left the business are still shown as being on hand. The reports therefore overstate both profit and assets, which breaches **faithful representation —** the reports are no longer complete or free from material error, and users would be misled about the business's performance and position.

Question 18

Sale: GST = 1/11 × $880 = $80 (Sales $800); Cost of Sales = 40 × $3 = $120. Advertising GST = 1/11 × $220 = $20 (Advertising $200). Shelving GST = 1/11 × $1 650 = $150 (Equipment $1 500).

General Journal

Date 2026	Details	Debit $	Credit $
30 Nov	Bank	880	
	Sales		800
	GST Clearing		80
	Cash sale of inventory (Rec. 702)		
30 Nov	Cost of Sales	120	
	Inventory		120
	Cost of inventory sold		
30 Nov	Advertising	200	
	GST Clearing	20	
	Bank		220
	Payment for advertising (EFT 2000)		
30 Nov	Equipment	1 500	
	GST Clearing	150	
	Bank		1 650
	Purchase of display shelving for cash (EFT 2001)		

Net GST Clearing movement. The sale **credits** GST Clearing \$80 (GST collected); the two payments **debit** GST Clearing \$20 + \$150 = \$170 (GST paid). Net movement = \$170 Dr − \$80 Cr = **\$90 debit**. A net debit means the business has paid \$90 more GST than it collected on the day, so GST Clearing moves \$90 towards being a **GST refund receivable** from the ATO.

Chapter 4 Cash transactions, the GST and the General Journal — 4D The GST Clearing account

Theory

When a business makes a sale it adds **10% Goods and Services Tax (GST)** to the price and collects that GST from the customer. When it buys inventory, or pays for a **GST-bearing** expense or asset, it is charged 10% GST by its supplier. Not everything carries GST: payments such as wages and interest are **not subject to GST** — an employee's labour is not a taxable supply — and settlement discounts are specifically excluded, so those amounts never touch GST Clearing. The business does not keep the GST it collects, and the GST it pays is not one of its own costs — it is simply acting as a **collector of GST on behalf of the Australian Taxation Office (ATO)**. To keep all of this GST in one place, a business records it in a single ledger account: the **GST Clearing** account.

The two sides of the account. The GST Clearing account brings together every GST amount the business handles:

- **GST collected** on sales (and on any other GST-bearing revenue) is **credited** to GST Clearing. This is GST the business owes to the ATO, so it *increases* the amount owed — a credit entry.
- **GST paid** on purchases of inventory, and on GST-bearing expenses and assets, is **debited** to GST Clearing. This GST is claimable back from the ATO, so it *reduces* the amount owed — a debit entry.

Because GST Clearing is credited with GST collected and debited with GST paid, its balance is the **net** GST position at any time. The account is credited and debited from the same transactions that are recorded in the General Journal, so the **cross-reference** on each line names the other account in that entry:

- GST collected on a **cash sale** → cross-referenced to **Bank** (the cash, including GST, was banked).
- GST paid on a **cash purchase, expense or asset** → cross-referenced to **Bank** (the cash, including GST, was paid out).
- GST collected on a **credit sale** → cross-referenced to **Accounts Receivable**; GST paid on a **credit purchase** → cross-referenced to **Accounts Payable**. (Credit transactions are recorded in full in later chapters, but their GST flows through this same account.)

The balance: payable or receivable. At the end of the reporting period the account is **balanced**. The side of the balance tells the business its position with the ATO:

- If **GST collected exceeds GST paid**, the account has a **credit balance**. The business owes the difference to the ATO. This is **GST payable**, reported as a **current liability** in the Balance Sheet, because it is a present obligation the business expects to settle within the next twelve months.
- If **GST paid exceeds GST collected** — which happens when the business buys a large asset, or buys much more than it sells in a period — the account has a **debit balance**. The ATO owes the difference back to the business. This is **GST receivable**, reported as a **current asset**, because it is a future economic benefit (a refund) the business controls.

In every period the rule is the same:

$$\text{GST Clearing balance} = \text{total GST collected} - \text{total GST paid}$$

A **positive** result is a credit balance (a liability); a **negative** result is a debit balance (an asset).

Why GST Clearing is neither revenue nor expense. The GST collected on a sale is *not* revenue: it does not increase the owner's equity, because the business must hand it to the ATO. Recording it as revenue would overstate the firm's income and misrepresent its performance. Likewise, the GST paid on a purchase is *not* an expense: it does not reduce the owner's equity, because the business can claim it back from the ATO. Treating the account as a single liability (or asset) is therefore a **faithful representation** of the business's true obligation to — or claim on — the ATO.

Settling with the ATO. After the account is balanced, the business settles the amount with the ATO:

- To pay a **GST payable** (a credit balance), the business makes a payment to the ATO — **debit GST Clearing, credit Bank**. This clears the liability and returns the account to nil.

- To receive a **GST refund** for a **GST receivable** (a debit balance), the ATO pays the business — **debit Bank, credit GST Clearing**. This clears the asset and returns the account to nil.

Worked model. *Brookvale Supplies* records all of its GST through the GST Clearing account. During February 2026 it collected GST of $1 200 and $900 on cash sales (banked), and paid GST of $430, $260 and $110 on cash purchases and expenses. Posting each amount to the account and balancing it:

GST Clearing

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
6 Feb	Bank	430	10 Feb	Bank	1 200
15 Feb	Bank	260	20 Feb	Bank	900
23 Feb	Bank	110			
28 Feb	Balance c/d	1 300			
		2 100			**2 100**
			1 Mar	Balance b/d	1 300

GST collected ($2 100) exceeds GST paid ($800), so the account has a **credit balance of $1 300 — GST payable**. It is reported as a current liability:

Balance Sheet (extract) as at 28 February 2026

Current Liabilities	$
GST Clearing (GST payable)	1 300

Had the balance instead been a debit balance, the same line would appear under **Current Assets** as *GST Clearing (GST receivable)*.

Worked examples (scaffolded)

Example 1 — posting GST and finding a GST payable balance

Harborline Supplies records its GST through the GST Clearing account. During July 2026 it paid GST on cash purchases and expenses of $520 (4 July), $430 (12 July) and $180 (20 July), and collected GST on cash sales of $640 (7 July), $880 (16 July) and $1 210 (25 July). Post these amounts to the GST Clearing account, balance it at 31 July and classify the balance.

Working	Comment
GST paid is **debited** to GST Clearing: $520 + $430 + $180 = **$1 130** on the debit side.	GST paid reduces the amount owed to the ATO, so it sits on the debit side, cross-referenced to Bank.
GST collected is **credited**: $640 + $880 + $1 210 = **$2 730** on the credit side.	GST collected increases the amount owed to the ATO — a credit entry, cross-referenced to Bank.
Balance = GST collected − GST paid = $2 730 − $1 130 = **$1 600**. Collected exceeds paid, so it is a **credit balance**.	A credit balance means the business owes the ATO.
Enter **Balance c/d $1 600** on the **debit** (smaller) side dated 31 July; rule both sides off at **$2 730**.	The balancing figure goes on the side that is short so the account rules off.
Bring the balance down as **Balance b/d $1 600** on the **credit** side, dated 1 August.	A credit balance b/d confirms GST Clearing is a **liability — GST payable**, a current liability.

GST Clearing

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
4 Jul	Bank	520	7 Jul	Bank	640
12 Jul	Bank	430	16 Jul	Bank	880

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
20 Jul	Bank	180	25 Jul	Bank	1 210
31 Jul	Balance c/d	1 600			
		2 730			**2 730**
			1 Aug	Balance b/d	1 600

The closing balance of **$1 600 Cr** is reported as a **current liability** (GST payable) in the Balance Sheet as at 31 July 2026.

Example 2 — a GST receivable and recording the refund

Timberline Joinery records its GST through the GST Clearing account. During August 2026 it paid GST of $1 500 on a new machine bought for cash (3 August), $240 on cash purchases of inventory (14 August) and $90 on a cash expense (27 August). It collected GST on cash sales of $300 (9 August) and $460 (21 August). Balance the account at 31 August, classify the balance, and record the General Journal entry for the refund received from the ATO on 4 September (**EFT 2087**).

Working	Comment
GST paid (debit) = $1 500 + $240 + $90 = **$1 830**.	The GST on the machine is a large debit because assets carry GST too.
GST collected (credit) = $300 + $460 = **$760**.	Only two cash sales this month, so little GST was collected.
Balance = $760 − $1 830 = **−$1 070**. GST paid exceeds GST collected, so it is a **debit balance**.	A debit balance means the ATO owes the business.
Enter **Balance c/d $1 070** on the **credit** (smaller) side dated 31 August; rule both sides off at **$1 830**. Bring it down as **Balance b/d $1 070** on the **debit** side.	A debit balance b/d confirms GST Clearing is an **asset — GST receivable**, a current asset.
Refund: **debit Bank $1 070, credit GST Clearing $1 070** on 4 September.	Receiving the refund clears the receivable and returns the account to nil.

GST Clearing

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
3 Aug	Bank	1 500	9 Aug	Bank	300
14 Aug	Bank	240	21 Aug	Bank	460
27 Aug	Bank	90	31 Aug	Balance c/d	1 070
		1 830			**1 830**
1 Sep	Balance b/d	1 070			

The **$1 070 Dr** balance is a **current asset** (GST receivable). The refund is then recorded:

General Journal

Date 2026	Details	Debit $	Credit $
4 Sep	Bank	1 070	
	GST Clearing		1 070
	GST refund received from the ATO (EFT 2087)		

Worked examples (unscaffolded)

Example 3 — an opening balance and a payment to the ATO

Cobblestone Cafe began the December quarter owing the ATO $2 100 for GST (a credit balance brought down on 1 October). On 28 October it paid the ATO $2 100 (EFT). During the quarter it collected GST on cash sales of $1 320 (31 October), $1 540 (30 November) and $1 700 (31 December), and paid GST on cash purchases and expenses of $620, $710 and $830 on those same dates. Balance the account at 31 December and classify the closing balance.

The opening $2 100 is a credit balance (a liability). The payment to the ATO on 28 October is a **debit** (cross-referenced to Bank) that clears that opening liability. The quarter's GST collected ($4 560) is credited and its GST paid ($2 160) is debited. The closing balance = ($2 100 + $4 560) − ($2 100 + $2 160) = **$2 400 Cr**.

GST Clearing

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
28 Oct	Bank	2 100	1 Oct	Balance b/d	2 100
31 Oct	Bank	620	31 Oct	Bank	1 320
30 Nov	Bank	710	30 Nov	Bank	1 540
31 Dec	Bank	830	31 Dec	Bank	1 700
31 Dec	Balance c/d	2 400			
		6 660			**6 660**
			1 Jan	Balance b/d	2 400

∴ the closing balance is **$2 400 Cr — GST payable**, reported as a current liability as at 31 December 2026.

Example 4 — GST from cash and credit dealings, then paying the ATO

Ironstone Hardware records GST from both cash and credit transactions through the GST Clearing account. During September 2026 it credited GST collected of $2 640 on cash sales (15 September, cross-referenced to Bank) and $1 210 on credit sales (27 September, cross-referenced to Accounts Receivable). It debited GST paid of $1 430 on cash purchases and expenses (22 September, Bank) and $720 on credit purchases (8 September, Accounts Payable). Balance the account at 30 September, then record the payment to the ATO on 7 October (**EFT 3155**).

GST collected ($3 850) exceeds GST paid ($2 150), so the balance is **$1 700 Cr — GST payable**.

GST Clearing

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
8 Sep	Accounts Payable	720	15 Sep	Bank	2 640
22 Sep	Bank	1 430	27 Sep	Accounts Receivable	1 210
30 Sep	Balance c/d	1 700			
		3 850			**3 850**
			1 Oct	Balance b/d	1 700

General Journal

Date 2026	Details	Debit $	Credit $
7 Oct	GST Clearing	1 700	
	Bank		1 700
	Payment to the ATO to settle GST payable (EFT 3155)		

∴ the $1 700 payable is reported as a current liability at 30 September, and the payment on 7 October returns the GST Clearing account to nil.

Practice questions — scaffolded

Question 1

Redgum Timber records its GST through the GST Clearing account. During March 2026 it paid GST of $480 (3 March), $300 (12 March) and $260 (22 March) on cash purchases and expenses, and collected GST of $720 (5 March), $1 040 (18 March) and $860 (28 March) on cash sales.

a. Post the amounts to the GST Clearing account and balance it at 31 March.
b. State the closing balance and whether it is a debit or a credit balance.
c. State whether the balance is a current asset or a current liability, and name it.

Question 2

Seabreeze Marine records its GST through the GST Clearing account. During April 2026 it paid GST of $1 320 on a boat trailer bought for cash (2 April), $210 on cash purchases (15 April) and $140 on a cash expense (26 April). It collected GST of $350 (10 April) and $520 (24 April) on cash sales.

a. Post the amounts to the GST Clearing account and balance it at 30 April.
b. State the closing balance and whether it is a current asset or a current liability.
c. Record the General Journal entry for the refund received from the ATO on 6 May (**EFT 4120**).

Question 3

Highfield Grocers began the March quarter owing the ATO $1 800 for GST (Balance b/d, 1 January). On 20 January it paid the ATO $1 800 (EFT). During the quarter it collected GST on cash sales of $980 (31 January), $1 120 (28 February) and $1 260 (31 March), and paid GST of $540, $600 and $640 on cash purchases and expenses on those dates.

a. Post the amounts to the GST Clearing account and balance it at 31 March.
b. State the closing balance and its classification.
c. Explain in one sentence why the payment on 20 January is recorded on the debit side.

Question 4

At 30 June 2026 *Parkside Pharmacy* had collected GST on sales of $4 380 and paid GST on purchases, expenses and a new refrigeration unit of $3 010 during June. There was no opening balance.

a. Calculate the balance of the GST Clearing account at 30 June.
b. State whether it is a debit or a credit balance.
c. State how and where the balance is reported in the Balance Sheet as at 30 June.

Question 5

At 30 September 2026 the GST Clearing account of *Vale Electrical* had a credit balance of $2 250.

a. Record the General Journal entry to pay the ATO on 21 October (**EFT 5088**).
b. State the effect of this payment on the GST Clearing account balance.
c. Explain why, before payment, the $2 250 was reported as a current liability.

Question 6

At 30 June 2026 the GST Clearing account of *Alder & Co* had a credit balance of $3 200, while that of *Birch Trading* had a debit balance of $640.

a. For each business, state whether the balance is a current asset or a current liability and give its reporting name.
b. Explain why a credit balance in the GST Clearing account represents an amount owed to the ATO.

c. Explain, with reference to a relevant qualitative characteristic, why the GST collected on sales is not reported as revenue of the business.

Practice questions — unscaffolded

Question 7

Marloo Outfitters records its GST through the GST Clearing account. During May 2026 it paid GST of $560 (4 May), $480 (13 May) and $390 (23 May), and collected GST of $910 (6 May), $1 230 (17 May) and $1 040 (27 May). Prepare and balance the GST Clearing account at 31 May, and state the closing balance and its classification.

Question 8

Glenbrook Nursery records its GST through the GST Clearing account. During June 2026 it paid GST of $1 900 on a greenhouse bought for cash (5 June), $220 on cash purchases (19 June) and $150 on a cash expense (28 June), and collected GST of $430 (12 June) and $610 (26 June) on cash sales. Prepare and balance the account at 30 June, state the closing balance and its classification, and state the amount of the refund due from the ATO.

Question 9

Sunnyvale Bakery began the September quarter owing the ATO $1 450 for GST (Balance b/d, 1 July), which it paid on 18 July (EFT). During the quarter it collected GST on cash sales of $1 080 (31 July), $1 190 (31 August) and $1 260 (30 September), and paid GST of $640, $700 and $760 on those dates. Prepare and balance the GST Clearing account at 30 September, and state the closing balance and its classification.

Question 10

During July 2026 *Rivergum Auto* had the following GST-related transactions (no opening balance): cash sales GST $3 420; cash purchases of inventory GST $1 260; cash payment of rent GST $190; cash purchase of equipment GST $640; and cash sales GST $1 180. Calculate the balance of the GST Clearing account at 31 July, state whether it is a debit or credit balance, and state how it is reported in the Balance Sheet.

Question 11

At 30 June 2026 the GST Clearing account of *Coolamon Cycles* had a credit balance of $1 940. The business paid the ATO by EFT on 22 July. Record the General Journal entry, and state how the $1 940 was reported in the Balance Sheet as at 30 June.

Question 12

At 31 March 2026 the GST Clearing account of *Bluestone Furniture* had a debit balance of $770. The ATO refund was received on 9 April (EFT receipt). Record the General Journal entry, and state the classification of the $770 in the Balance Sheet as at 31 March.

Question 13

The GST Clearing account of *Yarraford Traders* had an opening credit balance of $1 600 (1 July) and a closing credit balance of $2 260 (30 September). During the quarter GST collected on sales was $5 240 and the business paid the ATO $1 600. Using account reconstruction, calculate the GST paid on purchases, expenses and assets during the quarter.

Question 14

At 30 June 2026 the GST Clearing account of *Wattlebank Stores* had a credit balance of $2 700. Explain how and where this balance is reported in the financial reports, and explain why it is not reported as an expense or as revenue of the business.

Question 15

Distinguish between a GST payable and a GST receivable, and state one circumstance in which a business's GST Clearing account would show a debit balance at the end of a reporting period.

Question 16

Eaglehawk Trading records GST from both cash and credit dealings. During October 2026 it collected GST of $2 480 on cash sales (8 October, Bank) and $1 320 on credit sales (23 October, Accounts Receivable), and paid GST of $1 640 on cash purchases and expenses (12 October, Bank) and $910 on credit purchases (26 October, Accounts Payable). There was no opening balance. Prepare and balance the GST Clearing account at 31 October, and state the closing balance and its classification.

Question 17

Explain why the GST a business collects on its sales is recorded in the GST Clearing account rather than as revenue, and why the GST it pays on its purchases is not recorded as an expense. Refer to the role of the business as a collector of GST on behalf of the ATO.

Question 18

Thornbury Provisions began the June quarter owing the ATO $2 050 for GST (Balance b/d, 1 April), which it paid on 15 April (EFT). During the quarter it collected GST of $1 460 on cash sales (30 April), $1 580 on cash sales (31 May) and $1 240 on credit sales (30 June, Accounts Receivable). It paid GST of $720 on cash purchases (30 April), $2 400 on a delivery van bought for cash (12 May), $800 on cash purchases (31 May) and $560 on credit purchases (30 June, Accounts Payable). Prepare and balance the GST Clearing account at 30 June, state the closing balance and its classification, and record the General Journal entry for the refund received from the ATO on 14 July (**EFT receipt 6210**).

Answers

1.
   b. $1 580 Cr c. current liability (GST payable)
2.
   b. $800 Dr — current asset (GST receivable) c. Dr Bank $800; Cr GST Clearing $800
3.
   b. $1 580 Cr — current liability (GST payable) c. it reduces the liability owed to the ATO
4.
   a. $1 370 b. credit balance c. current liability, GST Clearing (GST payable) $1 370
5.
   a. Dr GST Clearing $2 250; Cr Bank $2 250 b. reduces the balance to nil c. See solutions
6.
   a. Alder & Co $3 200 Cr = current liability (GST payable); Birch Trading $640 Dr = current asset (GST receivable) b. See solutions c. See solutions
7. $1 750 Cr — current liability (GST payable)
8. $1 230 Dr — current asset (GST receivable); refund of $1 230 due
9. $1 430 Cr — current liability (GST payable)
10. $2 510 Cr — current liability (GST payable)
11. Dr GST Clearing $1 940; Cr Bank $1 940; reported as a current liability at 30 June
12. Dr Bank $770; Cr GST Clearing $770; reported as a current asset at 31 March
13. GST paid = $2 980
14. See solutions (current liability — GST Clearing $2 700)
15. See solutions
16. $1 250 Cr — current liability (GST payable)
17. See solutions
18. $200 Dr — current asset (GST receivable); refund of $200 due

Fully-worked solutions

Question 1

GST paid (debit) = $480 + $300 + $260 = $1 040; GST collected (credit) = $720 + $1 040 + $860 = $2 620. Balance = $2 620 − $1 040 = **$1 580 Cr**.

GST Clearing

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
3 Mar	Bank	480	5 Mar	Bank	720
12 Mar	Bank	300	18 Mar	Bank	1 040
22 Mar	Bank	260	28 Mar	Bank	860
31 Mar	Balance c/d	1 580			
		2 620			**2 620**
			1 Apr	Balance b/d	1 580

b. **$1 580 Cr** (a credit balance). c. A **current liability — GST payable** (net GST owed to the ATO).

Question 2

GST paid (debit) = $1 320 + $210 + $140 = $1 670; GST collected (credit) = $350 + $520 = $870. Balance = $870 − $1 670 = **−$800**, a debit balance.

GST Clearing

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
2 Apr	Bank	1 320	10 Apr	Bank	350
15 Apr	Bank	210	24 Apr	Bank	520
26 Apr	Bank	140	30 Apr	Balance c/d	800
		1 670			**1 670**
1 May	Balance b/d	800			

b. **$800 Dr** — a **current asset (GST receivable)**; the ATO owes the business $800.

c. General Journal entry for the refund:

General Journal

Date 2026	Details	Debit $	Credit $
6 May	Bank	800	
	GST Clearing		800
	GST refund received from the ATO (EFT 4120)		

Question 3

The opening $1 800 credit balance is cleared by the $1 800 payment to the ATO on 20 January (a debit). Quarter GST collected = $980 + $1 120 + $1 260 = $3 360; GST paid = $540 + $600 + $640 = $1 780. Closing balance = ($1 800 + $3 360) − ($1 800 + $1 780) = **$1 580 Cr**.

GST Clearing

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
20 Jan	Bank	1 800	1 Jan	Balance b/d	1 800
31 Jan	Bank	540	31 Jan	Bank	980
28 Feb	Bank	600	28 Feb	Bank	1 120
31 Mar	Bank	640	31 Mar	Bank	1 260
31 Mar	Balance c/d	1 580			
		5 160			**5 160**
			1 Apr	Balance b/d	1 580

b. **$1 580 Cr** — a **current liability (GST payable)**.

c. The payment reduces the amount the business owes the ATO, so it is recorded on the **debit** side — debiting the GST Clearing liability decreases it.

Question 4

a. Balance = GST collected − GST paid = $4 380 − $3 010 = **$1 370**.

b. GST collected exceeds GST paid, so it is a **credit balance**.

c. It is reported as a **current liability** under the heading Current Liabilities, as *GST Clearing (GST payable) $1 370*, because it is a present obligation the business expects to settle with the ATO within twelve months.

Question 5

a. General Journal entry to pay the ATO:

General Journal

Date 2026	Details	Debit $	Credit $
21 Oct	GST Clearing	2 250	
	Bank		2 250
	Payment to the ATO to settle GST payable (EFT 5088)		

b. The payment **reduces the credit balance to nil** — the liability is discharged and the GST Clearing account is cleared.

c. The $2 250 was the net GST **collected on behalf of the ATO but not yet remitted —** a present obligation to transfer economic resources (cash) to the ATO, expected to be settled within twelve months. It therefore met the definition of a **current liability**.

Question 6

a. *Alder & Co*: $3 200 **Cr → a current liability (GST payable)**. *Birch Trading*: $640 **Dr →** a **current asset (GST receivable)**.

b. A credit balance means the GST **collected** on sales (credited to the account) is greater than the GST **paid** on purchases, expenses and assets (debited to the account). The business has collected more GST from its customers than it has paid to its suppliers, and the difference must be handed to the ATO — so it is an amount **owed to the ATO**, a liability.

c. **Faithful representation.** The GST collected does not increase the owner's equity — the business is merely holding it on behalf of the ATO and must remit it. Reporting it as revenue would overstate the firm's income and its performance, so classifying it as a liability (GST payable) faithfully represents the true nature of the amount as an obligation rather than earnings of the business.

Question 7

GST paid (debit) = $560 + $480 + $390 = $1 430; GST collected (credit) = $910 + $1 230 + $1 040 = $3 180. Balance = $3 180 − $1 430 = **$1 750 Cr**.

GST Clearing

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
4 May	Bank	560	6 May	Bank	910
13 May	Bank	480	17 May	Bank	1 230
23 May	Bank	390	27 May	Bank	1 040
31 May	Balance c/d	1 750			
		3 180			**3 180**
			1 Jun	Balance b/d	1 750

Closing balance **$1 750 Cr** — a **current liability (GST payable)**.

Question 8

GST paid (debit) = $1 900 + $220 + $150 = $2 270; GST collected (credit) = $430 + $610 = $1 040. Balance = $1 040 − $2 270 = **−$1 230**, a debit balance.

GST Clearing

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
5 Jun	Bank	1 900	12 Jun	Bank	430
19 Jun	Bank	220	26 Jun	Bank	610
28 Jun	Bank	150	30 Jun	Balance c/d	1 230

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
		2 270			**2 270**
1 Jul	Balance b/d	1 230			

Closing balance **$1 230 Dr — a current asset (GST receivable)**. The GST paid on the greenhouse pushed GST paid above GST collected, so a **refund of $1 230** is due from the ATO.

Question 9

The opening $1 450 credit balance is cleared by the $1 450 payment on 18 July. Quarter GST collected = $1 080 + $1 190 + $1 260 = $3 530; GST paid = $640 + $700 + $760 = $2 100. Closing balance = ($1 450 + $3 530) − ($1 450 + $2 100) = **$1 430 Cr**.

GST Clearing

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
18 Jul	Bank	1 450	1 Jul	Balance b/d	1 450
31 Jul	Bank	640	31 Jul	Bank	1 080
31 Aug	Bank	700	31 Aug	Bank	1 190
30 Sep	Bank	760	30 Sep	Bank	1 260
30 Sep	Balance c/d	1 430			
		4 980			**4 980**
			1 Oct	Balance b/d	1 430

Closing balance **$1 430 Cr — a current liability (GST payable)**.

Question 10

GST collected = $3 420 + $1 180 = $4 600; GST paid = $1 260 + $190 + $640 = $2 090. Balance = $4 600 − $2 090 = **$2 510**. GST collected exceeds GST paid, so it is a **credit balance**. It is reported as a **current liability** in the Balance Sheet as *GST Clearing (GST payable) $2 510*.

Question 11

General Journal

Date 2026	Details	Debit $	Credit $
22 Jul	GST Clearing	1 940	
	Bank		1 940
	Payment to the ATO to settle GST payable		

At 30 June the $1 940 credit balance was reported as a **current liability** (GST Clearing — GST payable).

Question 12

General Journal

Date 2026	Details	Debit $	Credit $
9 Apr	Bank	770	
	GST Clearing		770
	GST refund received from the ATO		

At 31 March the $770 debit balance was reported as a **current asset** (GST Clearing — GST receivable).

Question 13

Reconstructing the account, the credit side (opening balance + GST collected) must equal the debit side (ATO payment + GST paid + closing balance):

GST paid = opening balance + GST collected − ATO payment − closing balance = $1 600 + $5 240 − $1 600 − $2 260 = **$2 980**.

(Check: credit side $1 600 + $5 240 = $6 840; debit side $1 600 + $2 980 + $2 260 = $6 840.) ∴ GST paid on purchases, expenses and assets during the quarter was **$2 980**.

Question 14

The $2 700 credit balance is reported in the **Balance Sheet** as at 30 June, under **Current Liabilities**, as *GST Clearing (GST payable) $2 700*. It is a **liability** because it is the net GST the business has collected on behalf of the ATO and must remit within twelve months — a present obligation. It is **not** an expense: the GST paid on purchases was recoverable from the ATO (an asset), not a cost of the business, so it never reduced owner's equity. It is **not** revenue: the GST collected on sales was never earned by the business — it belongs to the ATO — so it never increased owner's equity. Because it changes neither revenue nor expenses, it does not appear in the Income Statement at all; it is purely a Balance Sheet item.

Question 15

A **GST payable** is a **current liability**: it arises when the GST **collected** on sales exceeds the GST **paid** on purchases, expenses and assets, leaving the GST Clearing account with a **credit balance** — a net amount the business owes the ATO. A **GST receivable** is a **current asset**: it arises when GST **paid** exceeds GST **collected**, leaving a **debit balance** — a net amount the ATO owes the business as a refund. A debit balance would occur, for example, when a business **buys a large non-current asset** (such as a vehicle or machine) for cash in a period: the GST paid on that asset can exceed all the GST collected on the period's sales, so the account ends the period with a debit balance.

Question 16

GST collected (credit) = $2 480 + $1 320 = $3 800; GST paid (debit) = $1 640 + $910 = $2 550. Balance = $3 800 − $2 550 = **$1 250 Cr**.

GST Clearing

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
12 Oct	Bank	1 640	8 Oct	Bank	2 480
26 Oct	Accounts Payable	910	23 Oct	Accounts Receivable	1 320
31 Oct	Balance c/d	1 250			
		3 800			**3 800**
			1 Nov	Balance b/d	1 250

Closing balance **$1 250 Cr** — a **current liability (GST payable)**. GST collected on both cash and credit sales is credited; GST paid on both cash and credit purchases is debited; the net is what the business owes the ATO.

Question 17

A business does not earn the GST it adds to its sales — it collects that 10% **as an agent for the ATO** and must hand it over. Because the GST collected does not increase the owner's equity, it fails the definition of revenue; it is instead a **liability** (an amount owed to the ATO), credited to the GST Clearing account. In the same way, the GST a business is charged on its purchases and expenses is **not a cost it must bear**: it can be claimed back from the ATO, so it does not reduce the owner's equity and is not an expense. It is a **claim on the ATO** (which reduces the net GST owed), debited to the GST Clearing account. Recording all GST through the one GST Clearing account keeps these agency amounts out of the Income Statement, so that reported revenue and expenses reflect only the business's own trading — a **faithful representation** of its performance.

Question 18

The opening $2 050 credit balance is cleared by the $2 050 payment on 15 April. GST collected = $1 460 + $1 580 + $1 240 = $4 280; GST paid = $720 + $2 400 + $800 + $560 = $4 480. Closing balance = ($2 050 + $4 280) − ($2 050 + $4 480) = **−$200**, a debit balance.

GST Clearing

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
15 Apr	Bank	2 050	1 Apr	Balance b/d	2 050
30 Apr	Bank	720	30 Apr	Bank	1 460
12 May	Bank	2 400	31 May	Bank	1 580
31 May	Bank	800	30 Jun	Accounts Receivable	1 240
30 Jun	Accounts Payable	560	30 Jun	Balance c/d	200
		6 530			**6 530**
1 Jul	Balance b/d	200			

Closing balance **$200 Dr** — a **current asset (GST receivable)**. The $2 400 GST paid on the delivery van tipped GST paid above GST collected, so a **refund of $200** is due. The refund is recorded:

General Journal

Date 2026	Details	Debit $	Credit $
14 Jul	Bank	200	
	GST Clearing		200
	GST refund received from the ATO (EFT receipt 6210)		