CONCEPT: SALES TAX PAYABLE

● Companies must often collect a **sales tax** based on a percentage of revenue.

    □ Sales taxes are paid by customers, but are not _____. They are collected and remitted to the government

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

Journal Entry:

Assets	=	Liabilities	+	Equity

ORC remitted the sales taxes collected to the government at the end of the month.

Journal Entry:

Assets	=	Liabilities	+	Equity

    □ A company may also record total cash receipts and back into the amount of revenue using the following formula:

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

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

Journal Entry:

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

a) A debit to Sales Taxes Payable for $1,176

b) A debit to Sales Tax Expense for $1,246

c) A credit to Sales Taxes Payable for $1,176

d) A credit to Sales Taxes Payable for $1,246

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

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

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

Prepare journal entries for each of the events provided.