



Journal Entry Practice Sheet: A Global Perspective

Instructions: Based on the principles in "The Professional's Guide to Journal Entries," prepare the correct journal entry for each of the following transactions.

Question 1 (USA) The creative agency purchases new office software for \$750, paying in cash.

Answer: Debit: Software Expense \$750 Credit: Cash \$750

Explanation: An expense account (Software Expense) is increased, which requires a debit. The Cash account, an asset, decreased, which requires a credit. In the U.S., any sales tax paid is typically included in the total expense amount.

Question 2 (USA) The agency receives a \$2,000 payment from a U.S. client for a project that was completed and billed last month. The original sale was recorded in Accounts Receivable.

Answer: Debit: Cash \$2,000 Credit: Accounts Receivable \$2,000

Explanation: Cash, an asset, has increased, so it is debited. Accounts Receivable, another asset representing money owed to the company, has decreased because the client has paid their bill. Therefore, it is credited. Revenue is not recorded here because it was already recognized when the service was originally billed.

Question 3 (General) The agency pays its monthly office rent of \$1,200 via a bank transfer.

Answer: Debit: Rent Expense \$1,200 Credit: Bank \$1,200

Explanation: Rent Expense is an expense account that has increased for the month, so it is debited. The Bank account (which functions like Cash and is an asset) has decreased, so it is credited.

Question 4 (Philippines) Zyrine, the video editor, completes a project for a client in the Philippines and bills them P50,000 plus 12% VAT. The client will pay next month.

Answer: Debit: Accounts Receivable P56,000 Credit: Service Revenue P50,000 Credit: VAT Payable P6,000

Explanation: The total amount owed by the client is the service fee plus the VAT ($P50,000 \times 1.12 = P56,000$). This total is debited to Accounts Receivable. The P50,000 earned is credited

to Service Revenue. The 12% VAT ($P50,000 \times 0.12 = P6,000$) is a liability owed to the government, so it is credited to VAT Payable.

Question 5 (Philippines) The agency buys a new camera for its video projects from a local Philippine store for P80,000 plus 12% VAT, paying in cash.

Answer: Debit: Equipment P80,000 Debit: Input VAT P9,600 Credit: Cash P89,600

Explanation: The camera is an asset (Equipment), so its cost of P80,000 is debited. The 12% VAT paid on the purchase ($P80,000 \times 0.12 = P9,600$) is recorded as Input VAT, which is also an asset (it can be used to offset VAT Payable). The total cash paid is P89,600 ($P80,000 + P9,600$), so the Cash account is credited for this amount.

Question 6 (Philippines) The agency pays its graphic designer in the Philippines a gross monthly salary of P40,000. It deducts P4,200 for Withholding Tax and P1,800 for SSS contributions. The net amount is paid from the bank.

Answer: Debit: Salaries Expense P40,000 Credit: Withholding Tax Payable P4,200 Credit: SSS Payable P1,800 Credit: Bank P34,000

Explanation: The full salary cost to the company is P40,000, which is debited to Salaries Expense. The amounts deducted are liabilities the company owes to government agencies, so Withholding Tax Payable and SSS Payable are credited. The actual cash paid out is the gross salary minus deductions ($P40,000 - P4,200 - P1,800 = P34,000$), which is credited to the Bank account.

Question 7 (Japan) Patricia sells a writing package to a Japanese client for ¥100,000. The price includes the 10% Japanese Consumption Tax. The client pays in cash.

Answer: Debit: Cash ¥100,000 Credit: Service Revenue ¥90,909 Credit: Consumption Tax Received ¥9,091

Explanation: The total cash received is ¥100,000. To find the revenue portion, you divide the total by 1.10 ($¥100,000 / 1.10 = ¥90,909$). This amount is credited to Service Revenue. The difference ($¥100,000 - ¥90,909 = ¥9,091$) is the tax collected on behalf of the government, which is a liability credited to Consumption Tax Received.

Question 8 (Japan) Cris, the web developer, purchases a new software subscription from a Japanese vendor for ¥22,000, which includes the 10% consumption tax. She pays with the company's bank card.

Answer: Debit: Software Expense ¥20,000 Debit: Consumption Tax Paid ¥2,000 Credit: Bank ¥22,000

Explanation: The total amount paid is ¥22,000. The cost of the software is the total divided by 1.10 ($¥22,000 / 1.10 = ¥20,000$), which is debited to Software Expense. The tax portion (¥2,000)

is debited to Consumption Tax Paid (an asset). The total payment of ¥22,000 is credited to the Bank account.

Question 9 (General) The agency hires a freelance photographer for a one-day shoot and pays them a gross fee of \$1,000. The agency is required to withhold 10% (\$100) for taxes. The net amount is paid in cash.

Answer: Debit: Professional Fees Expense \$1,000 Credit: Tax Payable \$100 Credit: Cash \$900

Explanation: The total expense incurred by the company is \$1,000, which is debited to Professional Fees Expense. The \$100 withheld is a liability owed to the tax authorities, so it is credited to Tax Payable. The actual cash paid to the photographer is \$900 (\$1,000 - \$100), so Cash is credited for this amount.

Question 10 (Conceptual) Explain why a business in the Philippines or Japan must track tax on purchases (like Input VAT or Consumption Tax Paid) as a separate account, while a business in the USA often just includes sales tax as part of the total expense.

Answer & Explanation: In countries with a Value-Added Tax (VAT) or Consumption Tax system like the Philippines and Japan, the tax system is transaction-based. Businesses pay tax on their purchases (input tax) and collect tax on their sales (output tax). At the end of a period, they remit the difference to the government. Because the input tax they pay can be used to reduce the amount they owe, it has future economic value and is therefore treated as an asset.

In the USA, sales tax is a consumer-level tax. The business acts merely as a collection agent for the government. The sales tax it pays on its own business purchases is simply part of the final cost of the item and is not reclaimable. Therefore, it's simpler to just include it in the total cost of the expense or asset.