

Recipient Created Tax Invoices (RCTIs): Seller's Perspective

Aim

The aim of this paper is to show how businesses selling goods and receiving Recipient Created Tax Invoices (RCTIs) from the selling agent can record this transaction in QuickBooks.

Versions

This paper was written using QuickBooks 2007/08. The principles are applicable to most versions of QuickBooks.

Background

In many agricultural businesses, you send your produce to market to be sold at "market prices", not knowing how much you are going to get for your produce, nor what expenses are going to be deducted for handling or selling costs. In these situations, the selling agent will prepare a Recipient Created Tax Invoice (RCTI), and forward this paperwork to you with the payment.

An RCTI is simply a Tax Invoice produced by the agent of the goods, but formatted as if you created it. It will have your ABN and is legally considered a Tax Invoice prepared by you and issued to the selling agent.

RCTIs will normally detail the quantity and value you are being paid for your goods. They will also contain details of payments the agent has deducted for handling fees, commission, industry levies, etc. The amount left (if any!) is yours to keep.

You cannot simply record the net amount as income:

- The ATO requires the transaction to be separated into an Income component and an expense component.
- The expenses are often a mixture of GST and Non-GST transactions.

This paper shows how to record the transaction to correctly reflect the income and expense components and the relevant GST.

Example

The example I will use here is drawn from the sale of Cattle. I have used this example as it is a relatively straightforward example showing both GST and non-GST

transactions. Figures in the transaction are entirely made-up and bear no relation to reality. The principles remain the same.

Example Transaction Detail

Date of Sale: 28th Sept 2007

<u>Transaction</u>	<u>Details</u>	<u>Gross \$</u>	<u>GST \$</u>
Income	4 Cattle @ \$550 ea inc GST	2,200	200
<i>Less</i>			
Expense	Yard Handling Fees	-88	-8
Expense	Transport	-55	-5
Expense	Mad Cow Research Levy (No GST)	-35	0
Expense	Cow Cocky Lobby Levy (Incl GST)	<u>-22</u>	<u>-2</u>
	Sub-Total Expenses	-200	-15
<i>Equals</i>			
Payment	Paid via EFT 5 th Oct 2007.	-2000	-185

SET-UP

Chart of Accounts Setup

A good starting point is to set up your Chart of Accounts to reflect the broad categories of Income and Expenses you need to record.

In the above example, you would set up an Income Account called "Sale of Livestock" and Expense Accounts called "Livestock Selling Expenses" and "Industry Levies". You may also need to set up a Bank Account called "RCTI Clearing Account". This is not a real bank account but a dummy account to allow the processing of the transaction.

The screenshot shows a 'New Account' dialog box with the following fields:

- Type: Bank
- General Info tab selected
- Name: RCTI Clearing Account
- Subaccount of: (empty dropdown)
- Description: Suspense Account for RCTI processing

Item Setup

The next step would be to setup the items to record the income.

Edit Item

Type: Use for goods you buy but don't track, like office supplies, or materials for a specific job that you charge back to the customer.

Item Name/Number: Subitem of

This item is purchased for and sold to a specific customer:job

Description: Price:

Sales Tax Code:

Account:

Barcode:

Variation: If you have QuickBooks Pro or Premier, you can tick the "This item is purchased for and sold to a specific custom:job" tickbox and use the item to track Quantities and Values of purchases as well as sales.

New Item

Type: Use for goods you buy but don't track, like office supplies, or materials for a specific job that you charge back to the customer.

Item Name/Number: Subitem of

This item is purchased for and sold to a specific customer:job

Purchase Information

Description on Purchase Transactions:

Cost:

Purch Tax Code:

Expense Account:

Preferred Supplier:

Sales Information

Description on Sales Transactions:

Sales Price:

Sales Tax Code:

Income Account:

Barcode:

GST Codes

When you are setting up the items, ensure you use the correct GST code for the product you are selling. Fruit, for example, is GST Free so you would use NCF and FRE in lieu of NCG/GST.

ENTERING THE TRANSACTION

Alternative Methods for Recording the Income Component

The income can be recorded as either:

- a Tax Invoice (Customers > Create Invoice) followed by a Receive Payment (Customers > Receive Payment); OR
- a Sales Receipt (Customers > Sales Receipt)

The key difference between the two methods is one of date: Using a Tax Invoice then a Receive Payment allows you to have different dates for the transaction date and the payment date. This may suit, for example, Dairy Farmers where you are paid on the 15th of this month for milk received up to the end of last month. Note also that this will affect the timing of the GST transaction if you are on an Accrual Basis for GST.

For this exercise, I will show the Tax Invoice/Receive Payments method.

Step 1 - Record the Income

Record a Tax Invoice via Customers > Create Invoice.

The screenshot shows the 'Create Invoices' window. At the top, there are navigation buttons (Previous, Next, Print, Email, Find, Spelling) and a search bar. Below that, the 'Customer: Job' is set to 'The Sale Yards'. The 'Class' is empty, and the 'Template' is 'Stadium Tax Invoice'. The 'Date' is 28/09/2007 and the 'Tax Invoice #' is 66. The 'Tax Invoice To' field contains 'The Sale Yards'. Below this is a table with columns: Item, Description, Qty, Rate, Tax, TAX AMT, Class, and Amount. The table contains one row: Cattle, Cattle Sales, 4, 550.00, GST, 200.00, and 2,200.00. At the bottom right, there is a summary table with columns: Tax Total (200.00) and Total (2,200.00). At the bottom left, there is a checkbox labeled 'Amts inc Tax' which is checked, and a 'Balance' field with the value 2,200.00.

Item	Description	Qty	Rate	Tax	TAX AMT	Class	Amount
Cattle	Cattle Sales	4	550.00	GST	200.00		2,200.00

Tax Total	200.00
Total	2,200.00

Amts inc Tax Balance 2,200.00

Check at the bottom of the form that the Gross Income received and the Tax Totals are correct.

Note also the "Amts inc Tax" check box. If the Tax Invoice uses net amounts, untick this so the data entry matches up with the Tax Invoice.

Step 2 - Record the Receipt of Money

Receive Payments Ask a help question **Ask** **How Do I?**

Previous Next History Journal Print Adjustment Note

Customer Payment

Received From: The Sale Yards Customer Balance: **2,200.00**

Pmt. Method: EFT Date: 05/10/2007

Memo: Sale of Cattle 28/9/07 Amount: 2,200.00

Cheque No.:

Invoices paid (with this payment) and those still outstanding: Show credit information

<input checked="" type="checkbox"/>	Date	Number	Orig. Amt.	Amt. Due	Credits	Payment
<input checked="" type="checkbox"/>	28/09/2007	66	2,200.00	2,200.00	0.00	2,200.00
Totals			2,200.00	2,200.00	0.00	2,200.00

Unused Payment **0.00**
Unused Credits **0.00**

Click here if you are receiving payment (part or full) against a debt that is currently being pursued by a debt recovery agency.

Group with other undeposited funds

Process credit card payment when saving

Deposit To: RCTI Clearing Account

Note that the funds are Deposited to the RCTI Clearing Account. It is crucial that this is selected or the rest of the process won't work.

Alternative Methods for Recording the Expenses Component

The expenses can be recorded as either:

- a Bill (Suppliers > Enter Bills) followed by a Bill Payment (Suppliers > Pay Bills); OR
- a Cheque (Banking > Write Cheques)

The key difference between the two methods is one of date: Using a Bill then a Pay Bills allows you to have different dates for the transaction date and the payment date. Again, this will affect the timing of the GST transaction if you are on an Accrual Basis for GST.

For the purposes of this exercise, I will show the Bill/Pay Bills method.

Step 3 - Accounting for the Expenses

The next step is to record the expenditure as a Bill.

Account	Tax	Gross Amt	Tax Amt	Memo
Livestock Selling Expenses	NCG	88.00	8.00	Yard Handling Fees
Livestock Selling Expenses	NCG	55.00	5.00	Transport
Industry Levies	NCF	35.00	0.00	Mad Cow Research Levy
Industry Levies	NCG	22.00	2.00	Cow Cocky Lobby Levy

You should ensure that the total of the Bill and the GST totals are consistent with the RCTI documentation.

Totals	200.00	15.00
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Step 4 - Pay the Bill from the RCTI Clearing Account

You can now Pay this Bill via Supplier > Pay Bills.

✓	Date Due	Supplier	Ref. No.	Amt. Due	Credits Used	Amt. To Pay
	03/01/2004	Remarkable Hotel		198.00	0.00	0.00
	25/02/2004	Homeware House Items		1,905.25	0.00	0.00
	07/03/2004	Georgian Plywood Import Co.		4,000.00	0.00	0.00
	10/03/2004	Remarkable Hotel		605.00	0.00	0.00
	15/03/2004	Rajah Furniture		2,310.50	0.00	0.00
✓	08/10/2007	The Sale Yards-		200.00	0.00	200.00

Ensure that the RCTI Clearing Account is selected as the Payment Account.

Credit Information for Highlighted Bill
 Supplier **The Sale Yards-** Number of Credits
 Bill Ref. No. Total Credits Available

Payment Account: RCTI Clearing Account Ending Balance **0.00**

Payment Method: Cheque To be printed Assign cheque no.

Payment Date: 05/10/2007

Step 5 - Transfer the RCTI Payment to the Cheque Account

The next step is to transfer the Net Payment of \$2000 from the RCTI Clearing Account to the Cheque Account. This is done via Banking > Transfer Funds.

Transfer Money Between Accounts Ask a help question

Previous Next Journal

Transfer Money

Date: 05/10/2007

Transfer Money From: RCTI Clearing Account Ending Balance 2,000.00

Transfer Money To: ABC Bank Ending Balance 276,761.44

Transfer Amt \$ 2,000.00

Memo: Funds from Cattle Sale 28/9/07

Step 6 - Check the Balance of the RCTI Clearing Account

The final step is to ensure that all the transactions have cleared through the RCTI Clearing Account, and that the account balance is zero.

RCTI Clearing Account Ask a help question Ask How Do I? X							
Go to... Print... Edit Transaction QuickReport							
Date	Number	Payee	Payment	✓	Deposit	Balance	
Ex.Rate	Type	Account	Memo				
05/10/2007		The Sale Yards			2,200.00	2,200.00	
	PMT	Accounts Receivable	Sale of Cattle 28/9/07				
05/10/2007	RCTI	The Sale Yards-		200.00		2,000.00	
	BILLPMT	Accounts Payable					
05/10/2007				2,000.00		0.00	
	TRANSFR	ABC Bank	Funds from Cattle Sale 28/9/07				

Step 7 - Check Account Balances

Note the balances of key accounts: the bank account balance of \$2000; RCTI Clearing Account = \$0; Tax Payable \$185; Income (Sale of Livestock) = \$2000; Expenses (Industry Levies and Livestock Selling Expenses) = \$185.

1/09

Transaction Detail by Account September 28 through October 5, 2007

Type	Date	Num	Name	Memo	Split	Amount
ABC Bank						
Transfer	05/10/2007			Funds from Cattle Sale 28/9/07	RCTI Clearing Account	2,000.00
Total ABC Bank						2,000.00
RCTI Clearing Account						
Payment	05/10/2007		The Sale Yards	Sale of Cattle 28/9/07	Accounts Receivable	2,200.00
Bill Pmt -Cheque	05/10/2007	RCTI	The Sale Yards-		Accounts Payable	-200.00
Transfer	05/10/2007			Funds from Cattle Sale 28/9/07	ABC Bank	-2,000.00
Total RCTI Clearing Account						0.00
Accounts Receivable						
Tax Invoice	28/09/2007	66	The Sale Yards		-SPLIT-	2,200.00
Payment	05/10/2007		The Sale Yards	Sale of Cattle 28/9/07	RCTI Clearing Account	-2,200.00
Total Accounts Receivable						0.00
Accounts Payable						
Bill	28/09/2007		The Sale Yards-		-SPLIT-	-200.00
Bill Pmt -Cheque	05/10/2007	RCTI	The Sale Yards-		RCTI Clearing Account	200.00
Total Accounts Payable						0.00
Tax Payable						
Tax Invoice	28/09/2007	66	The Sale Yards	Total Tax	Accounts Receivable	-200.00
Bill	28/09/2007		The Sale Yards-	Total Tax	Accounts Payable	15.00
Total Tax Payable						-185.00
Sale of Livestock						
Tax Invoice	28/09/2007	66	The Sale Yards	Cattle Sales	Accounts Receivable	-2,000.00
Total Sale of Livestock						-2,000.00
Industry Levies						
Bill	28/09/2007		The Sale Yards-	Mad Cow Research Levy	Accounts Payable	35.00
Bill	28/09/2007		The Sale Yards-	Cow Cocky Lobby Levy	Accounts Payable	20.00
Total Industry Levies						55.00
Livestock Selling Expenses						
Bill	28/09/2007		The Sale Yards-	Yard Handling Fees	Accounts Payable	80.00
Bill	28/09/2007		The Sale Yards-	Transport	Accounts Payable	50.00
Total Livestock Selling Expenses						130.00
TOTAL						0.00

GST Effect

To reinforce the timing of GST issue, I have provided 2 Tax Summary Reports: the first with the file set for GST on an Accrual Basis ...

GST Accrual Basis

Stadium Construction & Hardware Pty Ltd
Gross Tax Summary Report
 As of December 31, 2007

	◇ Gross GST ◇	Gross NCF	◇ Gross NCG ◇	◇ Total Gross ◇	◇ Total Tax ◇
OUTPUTS (Sales)					
Jul - Sep 2007	2,200	0	0	2,200	200
Oct - Dec 2007	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OUTPUTS (Sales)	<u>2,200</u>	<u>0</u>	<u>0</u>	<u>2,200</u>	<u>200</u>
INPUTS (Purchases)					
Jul - Sep 2007	0	35	165	200	15
Oct - Dec 2007	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL INPUTS (Purchases)	<u>0</u>	<u>35</u>	<u>165</u>	<u>200</u>	<u>15</u>
Total Tax Owed					185

Note that the GST liability is in the Sept Quarter.

GST Cash Basis

9:26 PM

15/12/09

Stadium Construction & Hardware Pty Ltd
Gross Tax Summary Report
 As of December 31, 2007

Cash Basis

	◇ Gross GST ◇	Gross NCF	◇ Gross NCG ◇	◇ Total Gross ◇	◇ Total Tax ◇
OUTPUTS (Sales)					
Jul - Sep 2007	0	0	0	0	0
Oct - Dec 2007	<u>2,200</u>	<u>0</u>	<u>0</u>	<u>2,200</u>	<u>200</u>
TOTAL OUTPUTS (Sales)	<u>2,200</u>	<u>0</u>	<u>0</u>	<u>2,200</u>	<u>200</u>
INPUTS (Purchases)					
Jul - Sep 2007	0	0	0	0	0
Oct - Dec 2007	<u>0</u>	<u>35</u>	<u>165</u>	<u>200</u>	<u>15</u>
TOTAL INPUTS (Purchases)	<u>0</u>	<u>35</u>	<u>165</u>	<u>200</u>	<u>15</u>
Total Tax Owed					185

Note that the GST liability is now in the December Quarter.

RCTIs In Other Industries

Other Agricultural Industries have different type of Income and Expenses, but the themes remain the same:

- Record the Gross income (and applicable GST) & deposit to RCTI Clearing;
- Record the expenses (and applicable GST) from the RCTI Clearing;
- Transfer the Net Payment from the RCTI Clearing to the Cheque Account.

-- End --