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"Please Note: While we try to provide you with the solution you need, we can't promise that the information set out below is totally error free or will necessarily resolve any problem you may have."

How to create a Recipient Created Tax Invoice (RCTI) in QuickBooks

A Recipient Created Tax Invoice (RCTI) is an invoice provided by a customer to the business rather than by the business to the customer.

It is used where a product is consigned to another party for sale, who after completing the sale will withhold costs incurred in the sale.

The full cost of the Sale must be reported by the business and the business is entitled to claim all costs associated with the sale. GST is recognised as collected and paid by the business.

The business will receive one document outlining the Sale details and all expenses and receives one payment.

The QuickBooks Challenge

The challenge for the QuickBooks user is that QuickBooks cannot process expense items on a tax invoice so that tax registers are updated properly, that reports are produced correctly and customer balances reduced to zero.

The business prefers to record the transaction as one document, so that it corresponds to the document it has received, that the QuickBooks entry corresponds to the actual entry in the Bank Account and that the number of steps to produce the required outcome are kept to a minimum.

There is more than one solution to this issue and users should consult with their Accountants for direction as to the best method for their business. We believe the solution offered here will meet users' requirements with the minimum of transactions and leave entries that will be directly reconcilable to bank statements, produce correct reports on a Cash Accounting basis and match real-life actions.

Example

Consider a wheat grower who consigns his crop to a grain merchant for sale. The sale will incur expenses like the following:

- Transport charges
- Storage charges
- Insurance
- Levy from a Government Authority (GST free)
- The Grain Merchant's fee.

The wheat grower will receive one RCTI from the Grain Merchant outlining the details of the Sale and all expenses incurred.

1. Required Accounts

- Sales Account for each income item with the relevant tax code selected (GST, FRE, EXP or INP)
- Expense account for each expense item with the relevant tax code selected (NCG or NCF)
- A clearing Bank Account called RCTI Clearing Account
- Inventory or Non-Inventory part for the sale item
- A Discount Item for each expense item, linked to the RCTI Clearing Account, to be used on the invoice/receipt. No tax code assigned.

The Item List will look like this:

Name	Description	Type	Account	On Hand	On Sales Order	U/M	Price
♦Service 1	Cost per hour	Service	Sales				20.00
♦Stock1	Stock Sold	Inventory Part	Sales	100	0		10.00
♦Assembly 1		Inventory Assem...	Sales	10	0		50.00
♦Labour Input	per hour charge	Non-inventory Part	Sales				20.00
♦Office Consumables	Office Consumables	Non-inventory Part	Sales				1.00
♦Wheat	market price per bushel	Non-inventory Part	Sales				0.00
♦Other Charge	Any additional Charge added to Invoice	Other Charge	Sales				0.00
♦\$ Discount	Fixed amount Discount	Discount	Discounts Given				
♦Discount	Percentage Discount	Discount	Discounts Given				-10.0%
♦Ins	Insurance charges on Storage & Transport	Discount	RCTI clearing Account				0.00
♦Levy2	Grain Board Levy	Discount	RCTI clearing Account				0.00
♦Merch Fees	Merchant fees on Grain Sales	Discount	RCTI clearing Account				0.00
♦Store	Storage charges on Grain Sales	Discount	RCTI clearing Account				0.00
♦Trans	Transport charges on Grain Sales	Discount	RCTI clearing Account				0.00
♦Partial Payment	Partial Payment of Invoice	Payment	Undeposited Funds				

2. Processing the transaction

The first step is to enter the RCTI Invoice. In this example we will enter a Tax Invoice, but you may choose to enter it as a Sales Receipt, particularly if you have received the funds with the recipient created tax invoice.

Use the normal sales item to record the sale.

To record the expense items, use the discount items created for them. For this method it is important that you do not assign a tax code to the discount item – the tax component will be handled in the next step.

Create Invoices

Type a help question **Ask** **How Do I?**

Previous Next Print Email Find Spelling History Journal Letters Customise

Customer: Job Class Template Print Preview

Customer 1 Invoice To: Customer 1 35 Saunders St Pymont NSW 2009

Tax Date 17/05/2011 Invoice No 4

Quantity	Item	Description	Unit	Price	TAX	TAX...	CLASS	Amount
1,000	Wheat	market price per bushel		6.25	GST	625.00		6,250.00
	Trans	Transport charges on Grain Sales (incl GST)		-100.00				-100.00
	Store	Storage charges on Grain Sales (incl GST)		-20.00				-20.00
	Ins	Insurance charges on Storage & Transport (incl GST)		-5.00				-5.00
	Levy2	Grain Board Levy (GST Free)		-65.00				-65.00
	Merch Fees	Merchant fees on Grain Sales (incl GST)		-125.00				-125.00
Total Tax								625.00
TOTAL								6,560.00

Customer Message

☒ To be printed
☐ To be emailed
☐ Amounts include tax

Add Time/Costs... Apply Credits... Payments Applied 0.00
 Customer Tax Code Balance Due 6,560.00

Memo

Save & Close Save & New Revert

When you save the invoice the 'expense items' are deposited to the RCTI Clearing Account:

RCTI clearing Account

Type a help question **Ask** **How Do I?**

Go to... Print... Edit Transaction QuickReport Download Bank Statement

Date	Number	Payee	Payment	✓	Deposit	Balance
Ex.Rate	Type	Account	Memo			
17/05/2011	INV	Customer 1			100.00	100.00
		Accounts Receivable [split]	Transport charges on Grain Sales (incl GST)			
17/05/2011	INV	Customer 1			20.00	120.00
		Accounts Receivable [split]	Storage charges on Grain Sales (incl GST)			
17/05/2011	INV	Customer 1			5.00	125.00
		Accounts Receivable [split]	Insurance charges on Storage & Transport (incl GST)			
17/05/2011	INV	Customer 1			65.00	190.00
		Accounts Receivable [split]	Grain Board Levy (GST Free)			
17/05/2011	INV	Customer 1			125.00	315.00
		Accounts Receivable [split]	Merchant fees on Grain Sales (incl GST)			
17/05/2011	6	Merchant	315.00			0.00
	CHQ	-split-				
17/05/2011		Number	Payee	Payment	Deposit	
		Account	Memo			
Splits						Ending balance 0.00
1-Line						
Sort by Date, Type, Number/...						
Record						Restore

When you receive payment from your merchant you will also need to process a Write Cheque for the expenses against the RCTI Clearing Account to recognise these expenses and the GST in your expense accounts. This transaction will generate a GST Event and clear the RCTI clearing account.

Your accounts are now properly updated.

3. Reports

Let's have a look at the Journal for these transactions:

Journal

Type a help question

Ask

How Do I?

Modify Report...

Memgrise...

Print...

Email ▾

Export...

Hide Header

Expand

Refresh

Dates

This Month-to-date ▾

From

01/05/2011

To

17/05/2011

Sort By

Default ▾

10:36 AM

17/05/11

RCTI

Journal

May 1 - 17, 2011

Trans #	Type	Date	Num	Name	Description	Account	Debit	Credit
18	Tax Invoice	17/05/2011	4	Customer1		Accounts Receivable	6,560.00	
				Customer1	market price per bus...	Sales		6,250.00
				Customer1	-MULTIPLE-	RCTI clearing Account	315.00	
				Australian Tax...	10% GST	Tax Payable		625.00
							6,875.00	6,875.00
26	Cheque	17/05/2011	Direct	Merchant	Clearing of expense...	RCTI clearing Account		315.00
				Merchant	Clearing of expense...	Transport	90.91	
				Merchant	Clearing of expense...	Storage	18.18	
				Merchant	Clearing of expense...	Insurance	4.55	
				Merchant	Clearing of expense...	Grain Board Levy	65.00	
				Merchant	Clearing of expense...	Merchant Fees	113.64	
				Australian Tax...	-MULTIPLE-	Tax Payable	22.72	
							315.00	315.00
27	Payment	17/05/2011		Customer1		Undeposited Funds	6,560.00	
				Customer1		Accounts Receivable		6,560.00
							6,560.00	6,560.00
TOTAL							13,750.00	13,750.00

And the Profit and Loss:

Profit & Loss		Type a help question Ask		How Do I?	
Modify Report...	Memrise...	Print...	Email	Export...	Hide Header
					Collapse
					Refresh
Dates	This Month-to-date	From	01/05/2011	To	17/05/2011
				Columns	Total only
				Sort By	Default

10:38 AM	RCTI
17/05/11	Profit & Loss
Cash Basis	May 1 - 17, 2011
	◊ May 1 - 17, 11 ◊
Income	
Sales	6,250.00
Total Income	6,250.00
Gross Profit	6,250.00
Expense	
Grain Board Levy	65.00
Insurance	4.55
Merchant Fees	113.64
Storage	18.18
Transport	90.91
Total Expense	292.28
Net Income	5,957.72

Tax reports also appear correctly:

Tax Detail Report (Cash Tax)		Type a help question Ask		How Do I?	
Modify Report...	Memrise...	Print...	Email	Export...	Hide Header
					Refresh
Dates	This Month	From	01/05/2011	To	31/05/2011
				Sort By	Default

10:39 AM	RCTI
17/05/11	Tax Detail Report (Cash Tax)
Cash Basis	May 2011
	◊ Type ◊ Date ◊ Name ◊ Num ◊ Description ◊ Original Amount ◊ Paid Amount ◊
OUTPUTS (Sales)	
May 11	
Tax Invoice	17/05/2011 Customer1 4 10% GST 625.00 625.00
May 11	625.00
TOTAL OUTPUTS (Sales)	625.00
INPUTS (Purchases)	
May 11	
Cheque	17/05/2011 Merchant Direct Non-Cap. Ac... 0.00 0.00
Cheque	17/05/2011 Merchant Direct Non-Cap. Ac... 22.72 22.72
May 11	22.72
TOTAL INPUTS (Purchases)	22.72
Total Tax Owed	602.28

10:40 AM
17/05/11

RCTI
Tax Detail Report (Cash Net)
May 2011

Cash Basis

Type	Date	Name	Num	Description	Tax Code	Original Amount	Paid Amount
OUTPUTS (Sales)							
May 11							
Tax Invoice	17/05/2011	Customer1	4	market price...	GST	6,250.00	6,250.00
May 11							6,250.00
TOTAL OUTPUTS (Sales)							6,250.00
INPUTS (Purchases)							
May 11							
Cheque	17/05/2011	Merchant	Direct	Clearing of e...	NCG	90.91	90.91
Cheque	17/05/2011	Merchant	Direct	Clearing of e...	NCG	18.18	18.18
Cheque	17/05/2011	Merchant	Direct	Clearing of e...	NCG	4.55	4.55
Cheque	17/05/2011	Merchant	Direct	Clearing of e...	NCF	65.00	65.00
Cheque	17/05/2011	Merchant	Direct	Clearing of e...	NCG	113.64	113.64
May 11							292.28
TOTAL INPUTS (Purchases)							292.28
Total Net							5,957.72

Tax Liability and BAS are also correct:

10:39 AM
17/05/11

RCTI
Tax Liability Report
May 2011

Cash Basis

◇ May 1, '11 - May 31, 11 ◇	
GOODS AND SERVICES TAX	
GST due on sales	625.00
GST reclaimed from purchases	22.72
Net GST to pay (or reclaim if negative)	602.28
Total net value of sales (ex GST)	6,250.00
Total net value of purchases (ex GST)	227.28
Total Input Taxed & GST Free Sales	0.00
Total Input Taxed & GST Free Purchases	65.00
SALES TAX	
Tax due on sales	0.00
Tax to Pay	0.00
Total net value of sales (ex Tax)	0.00
Total value of other sales	0.00
Total value of other purchases	0.00

Simplified BAS

Supplies and Acquisitions Taxes and Amounts Withheld Debits and Credits

Simplified BAS/IAS - Supplies & Acquisitions

Goods and services tax for the period 01/05/2011 to 31/05/2011

GST accounting method Cash

☒ Option 1: Actual GST report quarterly

Total sales & income & other supplies G1 \$ 6250 ?

Does the amount shown at G1 include GST? ☐ yes ☒ no

Exports G2 \$ 0 ?

Other GST-free supplies G3 \$ 0 ?

Capital acquisitions G10 \$ 0 ?

Other acquisitions G11 \$ 315 ?

Show actual GST at 1A and 1B in the Summary on the back

☐ Option 2: Actual GST report annually

Total sales & income & other supplies G1 \$? ?

Does the amount shown at G1 include GST? ☐ yes ☐ no

Show actual GST at 1A and 1B in the Summary on the back

☐ Option 3: GST Instalment

If varying your amount, complete G22, G23, G24

ATO instalment amount G21 \$? ?

If varying your amount, complete G22, G23, G24

Estimated GST for the year G22 \$? ?

Varied GST instalment G23 \$? ?

Show at 1A in Summary

Reason for variation G24 ?

Config Open Save Print Lodge Refresh Cancel Help

Simplified BAS

Supplies and Acquisitions Taxes and Amounts Withheld Debits and Credits

Simplified BAS/IAS - Debits & Credits

Summary of amounts

Amounts you owe to the ATO

Goods and services tax payable 1A \$ 625 ?

Wine equalisation tax payable 1C \$ 0 ?

Luxury car tax payable 1E \$ 0 ?

Pay As You Go withholding 4 \$ 0 ?

Pay As You Go instalment 5A \$ 0 ?

Fringe benefits tax instalment 6A \$ 0 ?

Deferred company/fund instalment 7 \$ 0 ?

Fuel tax credit over claim (Do not claim in litres) 7C \$? ?

1A + 1C + 1E + 4 + 5A + 6A + 7 + 7C 8A \$ 625 ?

Amounts the ATO owes you

Credit for goods and services tax paid 1B \$ 22 ?

Wine equalisation tax refundable 1D \$ 0 ?

Luxury car tax refundable 1F \$ 0 ?

Credit arising from reduced Pay As You Go instalments 5B \$ 0 ?

Credit arising from reduced fringe benefits tax instalments 6B \$ 0 ?

Fuel tax credit (Do not claim in litres) 7D \$? ?

1B + 1D + 1F + 5B + 6B + 7D 8B \$ 22 ?

Payment or refund?

Is 8A more than 8B? ☒ Yes Show 8A minus 8B in 9. This amount is payable to the ATO

☐ No Show 8B minus 8A in 9. This amount is refundable to you (or offset against any other tax debt you have)

Your payment or refund amount 9 \$ 603 ?

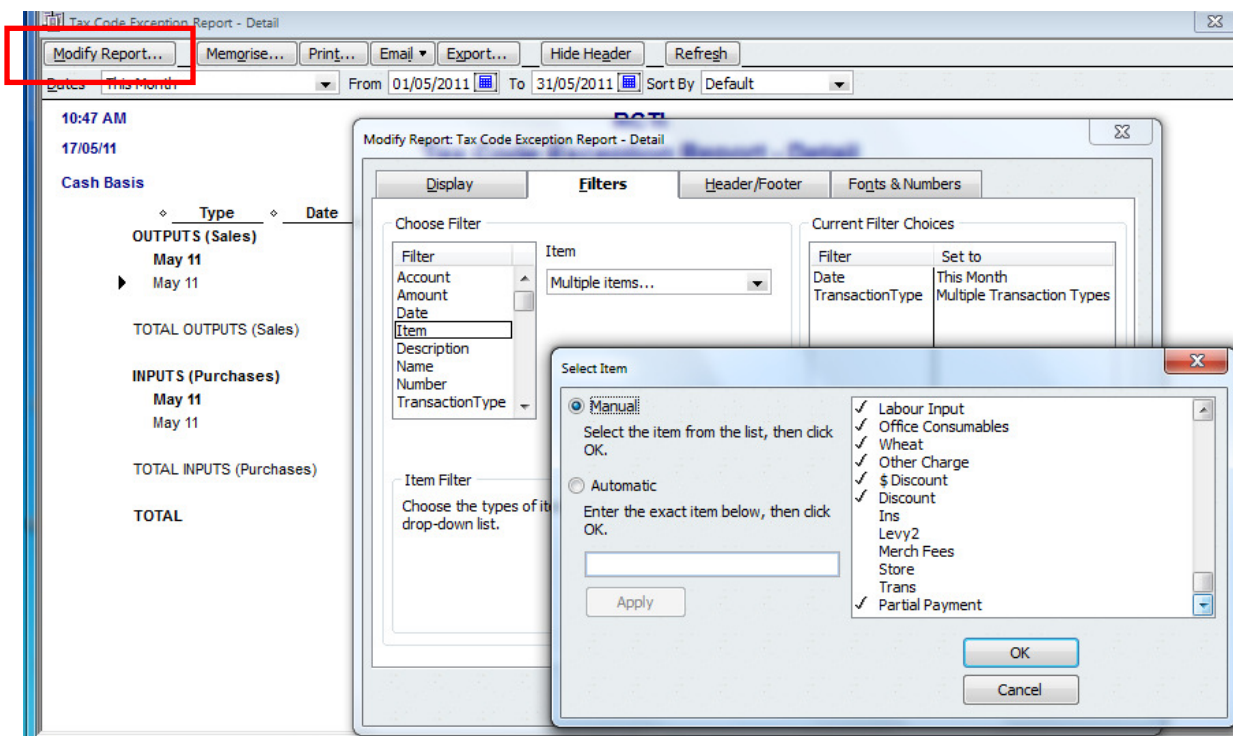
Config Open Save Print Lodge Refresh Cancel Help

4. One Exception

The one drawback of this method is that we have made a transaction without a tax code. These items will appear in the Tax Code Exception Report:

Type	Date	Name	Num	Description	Original...	Paid Amount
OUTPUTS (Sales)						
May 11						
Tax Invoice	17/05/2011	Customer1	4	Transport charges on Grain Sales (incl GST)	-100.00	-100.00
Tax Invoice	17/05/2011	Customer1	4	Storage charges on Grain Sales (incl GST)	-20.00	-20.00
Tax Invoice	17/05/2011	Customer1	4	Insurance charges on Storage & Transport (incl G...	-5.00	-5.00
Tax Invoice	17/05/2011	Customer1	4	Grain Board Levy (GST Free)	-65.00	-65.00
Tax Invoice	17/05/2011	Customer1	4	Merchant fees on Grain Sales (incl GST)	-125.00	-125.00
May 11						-315.00
TOTAL OUTPUTS (Sales)						-315.00
INPUTS (Purchases)						
May 11						
May 11						
TOTAL INPUTS (Purchases)						
TOTAL						-315.00

You will need to exclude the RCTI discount items from this report. Just click on Modify > Filter > Items > Multiple Items > select all then untick the RCTi discount items > OK:



The QuickBooks accounts and transactions should now match the real life actions with only one additional transaction to account for the particular way QuickBooks handles expenses and tax codes on an invoice.

Thanks to Accredited Partners Carolyn Long, Graham Boast, Marie Wiebrecht and John Peppas who participated in the AP Forum discussion on this topic. Thanks to John Peppas for reviewing and testing the article.